IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

In re:	§	
	§	**Case No. 23-34815 (JPN)**
GALLERIA 2425 Owner, LLC	§	
	§	**Chapter 11**
Debtor.	§	

DECLARATION OF MICHAEL C. CARTER IN SUPPORT OF CONFIRMATION OF NATIONAL BANK OF KUWAIT S.A.K.P., NEW YORK BRANCH'S CHAPTER 11 PLAN OF LIQUIDATION OF THE DEBTOR

I, Michael C. Carter, hereby declare under penalty of perjury:

1. I am the Vice President of National Bank of Kuwait, S.A.K.P.'s New York Branch ("NBK") and I also serve as the relationship manager for Galleria 2425 Owner, LLC (the "Debtor").

2. I submit this declaration (this "Declaration") in support of the Memorandum of Law (the "Confirmation Brief") in Support of Confirmation of the Chapter 11 Plan of Liquidation of the Debtor (the "Plan").[1]

3. Except as otherwise indicated herein, all facts set forth in this Declaration are based on my personal knowledge of the Debtor's operations and finances, information learned from my review of relevant documents, including documents and other information supplied to me, or my opinion based on my personal experience, knowledge, and information concerning the Debtor's operations and financial condition.

[1] Capitalized terms used but not defined in this Declaration shall have the meanings given those terms in the Plan and the Confirmation Brief, as applicable.

4. I am over the age of 18 and am authorized to submit this Declaration on behalf of NBK. If called to testify, I could and would testify competently to the statements set forth in this Declaration, as the information in this Declaration is accurate to the best of my knowledge.

PROFESSIONAL QUALIFICATIONS

5. I obtained my Bachelor of Arts degree from Trinity College-Hartford and a Master of Business Administration (MBA) degree with a focus on Accounting and Finance from Columbia Business School. I joined NBK as its Vice President and Head of Real Estate Lending in May 2018. Before joining NBK, I served in various senior positions, including Head of New York Representative Office and Head of US Real Estate Finance at HSH Nordbank (2006-2017), Senior Vice President at Aareal Bank (2002-2006), Senior Vice President at Forest City Ratner Companies (1999-2002), Senior Vice President at Credit Lyonnais (1992-1997) and Assistant Vice President at Bank of New York (1988-1992).

6. I have managed a team of loan originators and credit analysts. My professional experience includes financial structuring, portfolio management, credit analysis, asset management, foreclosure, investment banking, property development, loan origination, loan structuring, portfolio management, non-performing loans, debt restructuring, loan workouts, loan sales, mezzanine loans, loan syndication, subordinate debt, senior debt, construction loans, and foreclosures.

BACKGROUND

7. This case involves a single real estate asset located at 2425 West Loop South, Houston, Texas 77027 (the "Property"). Additional factual background about this case and the history between the Debtor and NBK is set forth in detail in the *National Bank of Kuwait, S.A.K.P. New York Branch's Motion Pursuant to 11 U.S.C. § 1112(b) to Convert Chapter 11 Case to Chapter 7*. *See* ECF No. 72.

<u>LIQUIDATION PLAN</u>

8. The Plan is based on the sale of Property at a public auction scheduled for June 18, 2024. The Trustee will conduct the sale under the supervision of this Court and the value of the Property will be determined by the winning bid at auction. Additional information about the public auction is set forth in the *Chapter 11 Trustee's Motion for Entry of an Order (I) Approving Procedures for the Sale of Property Free and Clear of All Liens, Claims and Encumbrances; (II) Scheduling an Auction; (III) Authorizing Entry Into the Stalking Horse Purchase Agreement; (IV) Approving Assumption and Assignment Procedures; (V) Approving Form of Notice; and (VI) Granting Related Relief* (the "<u>Sale Procedure Motion</u>") *See* ECF No. 188.

9. As described in the Confirmation Brief and Sale Procedure Motion, pursuant to the Stalking Horse Agreement, NBK has agreed to purchase the Property for $18,600,000 by way of a credit bid, subject to (i) higher and better offers at a public auction, and (ii) outstanding claims secured by *ad valorem* tax liens which will be paid under the Plan.

10. The Plan provides the following recoveries for creditors:

> ***Class 1: Other Secured Claims***. Each Holder of an Allowed Other Secured Claim will receive Cash in an amount equal to the Allowed amount of such Claim or, at the discretion of the Liquidation Trustee, shall be given the property securing its claim in full satisfaction of that claim.
>
> ***Class 2: Other Priority Claims***. Each Holder of an Allowed Other Priority Claim will receive Cash in an amount equal to the Allowed amount of such Claim.
>
> ***Class 3: NBK Tax Claim***. The Holder of an Allowed NBK Tax Claim will receive Cash equal to the Allowed amount of such Claim if NBK is not the Purchaser of the Property. However, if NBK is the Purchaser, the Holder of a Claim in Class 3 will not receive a distribution on account of such Claim.
>
> ***Class 4: NBK Secured Claim***. The Holder of an Allowed NBK Secured Claim will not receive any distribution if NBK is the Purchaser of the Property. If NBK is not the Purchaser, the Holder of such Claim will receive in full and final satisfaction of the NBK Secured Claim: (x) the Remaining

Cash and (y) any excess proceeds after payment of the Distribution Account Claims.

Class 5(a): Trade General Unsecured Claims. Each Holder of an Allowed Trade General Unsecured Claim will receive (x) Cash equal to 70% of the Allowed amount of such Claim, and (y) a *pro-rata* share of the Liquidation Trust Assets.

Class 5(b): Other General Unsecured Claims. Each Holder of an Allowed Other General Unsecured Claim will receive a *pro-rata* share of the Liquidation Trust Assets; *provided*, *however*, NBK will have an Other General Unsecured Claim equal to 90% of the Allowed amount of the NBK Deficiency Claim as determined by the Successful Bid and in accordance with section 506 of the Bankruptcy Code.

Class 6: Insider Claims. Each Holder of an Insider Claim will not receive or retain any property under the Plan on account of such Insider Claims.

Class 7: Subordinated Claims. Each Holder of a Subordinated Claim will not receive or retain any property under the Plan on account of such Subordinated Claims.

Class 8: Interests. Each Holder of an Interest in the Debtor will not receive or retain any property under the Plan on account of such Interests.

11. If NBK is not the Successful Bidder, then the sale proceeds of the Property will be used first to pay (i) Allowed Administrative Claims (including any commission owed to the Broker), (ii) Allowed Priority Tax Claims, (iii) Allowed Other Secured Claims (which includes a Claim of a governmental unit and Caz Creek TX, LLC for the payment of *ad valorem* real estate taxes that is secured by the Property), (iv) Allowed Other Priority Claims, (v) the Allowed NBK Tax Claim, and (vi) 70% of the Allowed Amount of Trade General Unsecured Claims. The total amount of these payments together with $150,000 to fund the Liquidation Trust is estimated to be $6.2 million, and the balance will be paid to NBK on the NBK Secured Claim.

12. If NBK is the Successful Bidder through its credit bid, NBK will contribute cash to the estate in the amounts necessary to pay (i) Allowed Administrative Claims (including any commission owed to the Broker), (ii) Allowed Priority Tax Claims, (iii) Allowed Other Secured

Claims (which includes a Claim of a governmental unit and Caz Creek TX, LLC for the payment of *ad valorem* real estate taxes that is secured by the Property), (iv) Allowed Other Priority Claims, (v) the Allowed NBK Tax Claim, and (vi) 70% of the Allowed Amount of Trade General Unsecured Claims. The total amount of these payments, together with $150,000 to fund the Liquidation Trust is estimated to be $3.6 million.

THE PLAN COMPLIES WITH THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE

13. I understand that confirmation of the Plan requires the satisfaction of various requirements set forth in the Bankruptcy Code. The following summarizes my understanding of the reasons the Plan satisfies these requirements. Unless otherwise stated, all section references are references to sections of the Bankruptcy Code.

A. Section 1122: Classification Requirements

14. I understand that section 1122(a) permits a plan to place a claim or interest in a different class so long as that claim or interest is substantially similar to the other claims or interests within that class. I further understand that section 1122(b) permits separate classification of certain claims for purposes of administrative convenience.

15. I believe that the Plan complies with the requirements of section 1122 because the Plan provides for separate classification of Claims and Interests based on the differing factual and legal nature and priority of such Claims and Interests. Each of the Claims and Interests within a Class is substantially like the other Claims and Interests in that Class, and the Plan's classification scheme tracks the underlying debts and instruments, or circumstances giving rise to such Claims and Interests, and complies with applicable provisions of the Bankruptcy Code.

B. Section 1123(a): Mandatory Requirements

16. I understand that section 1123(a) requires that the Plan meet certain mandatory requirements, each of which I believe have been satisfied.

17. I believe that the Plan satisfies sections 1123(a)(1)-(3) because Article III of the Plan designates the eight classes of claims and interests, specifies the classes of claims and interests that are unimpaired,[2] and specifies the treatment of claims and interests that are impaired.[3]

18. I believe that the Plan satisfies section 1123(a)(4) because Article III of the Plan provides for equal treatment of all claims and interests within each class. The Plan does not provide for different treatment among the members of a specific class. In other words, all holders of allowed claims or interests within a class receive the same treatment under the Plan. Paragraph 10, above, summarized the treatment of each class under the Plan.

19. I believe that the Plan satisfies section 1123(a)(5) because Article VI of the Plan provides adequate means for implementation as described in paragraphs 11 and 12 hereof.

20. I believe that the Plan satisfies section 1123(a)(6) because no securities will be issued under the Plan and thus non-voting equity securities will not be issued.

21. I believe that the Plan satisfies section 1123(a)(7), which requires that the selection of "any officer, director, or trustee under the" Plan "be consistent with the interests of creditors and equity security holders." On the Effective Date, all managers, officers and directors of the Debtor shall be deemed to have resigned from their respective positions, the Chapter 11 Trustee's appointment will terminate, and a Liquidating Trustee will be appointed to liquidate remaining assets, if any, prosecute affirmative claims, resolve claims against the estate and distribute funds to holders of Allowed claims in accordance with the terms of the Plan. The current Chapter 11 Trustee will serve as the Liquidation Trustee, and his appointment to this role is consistent with the interests of creditors and equity holders and public policy.

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[2] Claims and interests that are unimpaired are in Class 1 and Class 2 (collectively, the "Unimpaired Classes").

[3] Claims and interests that are impaired are in Class 3, Class 4, Class 5(a), Class 5(b), Class 6, Class 7, and Class 8 (together, the "Impaired Classes").

C. Section 1123(b): Plan Incorporates Certain Permissive Provisions

22. I understand that section 1123(b) identifies certain provisions that may be incorporated into a chapter 11 plan. The Plan incorporates the following permissive provisions, which I believe comply with section 1123(b):

23. **Impairment and Unimpairment**. As permitted by section 1123(b)(1), the Plan impairs Claims and Interests in Classes 3, 4, 5(a), 5(b), 6, 7 and 8 and leaves other Claims unimpaired in Classes 1 and 2.

24. **Assumption and Rejection**. As permitted by section 1123(b)(2) of the Bankruptcy Code, Article V of the Plan provides for the assumption or rejection of the Debtor's executory contracts and unexpired leases. If NBK is the Successful Bidder, all executory contracts and unexpired leases will be deemed rejected. If a party other than NBK is the Successful Bidder, that party will determine what executory contracts and unexpired leases will be assumed or rejected.

25. **Compromise, Settlement, and Retention of Causes of Action**. As permitted by section 1123(b)(3), the Plan effectuates a compromise and settlement of claims and Article IX.D of the Plan provides for a release of certain Claims and Causes of Action of the Estate. Article VI.K of the Plan preserves the Liquidation Trustee's rights to commence, pursue and settle all Causes of Action, whether arising before or after the Petition Date, including any actions enumerated in the Schedule of Retained Causes of Action that will be filed in the Plan Supplement (the "Retained Causes of Action").

26. **Other Appropriate Provisions**. As permitted by section 1123(b)(4)-(5), the Plan (i) encompasses the sale of all or substantially all of the property of the estate through the auction process described above, and distribution of the proceeds of such sale among holders of claims and interests pursuant to the Plan, and (ii) modifies the rights of Holders of Claims or Interests in

the Impaired Classes (Classes 3, 4, 5(a), 5(b), 6, 7 and 8), and leaves unaffected the rights of Holders of Claims in the Unimpaired Classes (Class 1 and Class 2).

27. **Estate Release**. As permitted by sections 1123(b)(3)(A) and 1123(b)(6), the Plan contains an Estate Release, under which the Trustee is releasing the Estate's Claims, Interests, or Causes of Action against each Released Party, including NBK, other than any obligations arising under the Plan and the Confirmation Order and the Retained Causes of Action. I believe the Estate Release is reasonable and understand that the Trustee believes giving the Estate Release reflects his sound business judgment. I understand that the Trustee, with the assistance of its advisors, investigated and assessed claims and causes of action against the Released Parties. With respect to NBK, I understand that NBK produced documents to the Trustee in response to requests and based on that investigation, NBK and the Trustee have agreed settle any and all potential issues relating to NBK, which will be reflected in a settlement agreement and for which separate court approval will be requested and which will include a release of the Estate's Claims, Interests and Causes of Action against NBK. I note that if any claims were to be asserted against NBK, NBK would defend against those claims vigorously and without the Estate Release, NBK will not be obligated to fund the Plan.

28. **Exculpation**. As permitted by section 1123(b)(6), the Plan contains an Exculpation, which provides protection to Exculpated Parties while also carving out fraud, gross negligence, and willful misconduct in relation to court-approved transactions that contribute to the Estate's administration. In light of the United States Trustee's informal objection to the Exculpation, I understand that the Confirmation Order to be presented to the Court will address this issue by making it clear that only the Trustee is being exculpated and NBK is not being exculpated. I believe that the modified Exculpation is appropriate and necessary because, without

it, the Exculpated Parties would likely not have been willing to continue to assist the estate during this case and the only alternative would been to convert this case to Chapter 7 to detriment of unsecured creditors who will not receive any recovery as demonstrated in the Liquidation Analysis.

29. **Injunction and Gatekeeping Provision**. As permitted by section 1123(b), the Plan contains an Injunction, which permanently enjoins all Persons from commencing any action or proceeding against the Released Parties with respect to any Claims that have been discharged, released or exculpated under the Plan, and a "gatekeeper provision" that requires any party to seek court approval before that party can try sue or continue a suit against any Released Parties based on a claim related to the Debtor that the party believes is not a claim that has been discharged, released or exculpated under the Plan. I believe that the Injunction is appropriate and necessary to preserve and enforce other provisions in the Plan, including the release, discharge, and exculpation provisions that are central to the Plan and are narrowly tailored to achieve that purpose. With respect to the gatekeeper provision, it does not prejudice any party affected by the provision because it is tailored to permit claims which are not without merit and have not been released, discharged or exculpated under the Plan.

D. Section 1123(d): Curing Defaults

30. I understand that section 1123(d) provides that "if it is proposed in a plan to cure a default the amount necessary to cure the default shall be determined in accordance with the underlying agreement and applicable nonbankruptcy law."

31. I believe that the Plan satisfies section 1123(d) because Article V.D of the Plan provides for the payment of Allowed Cure Claims in cash on the Effective Date or in the ordinary course of business, or as otherwise agreed by a counterparty to any assumed (and assigned) executory contract or unexpired lease.

E. Section 1129(a)(2): Applicable Provisions of the Bankruptcy Code

32. I understand that section 1129(a)(2) requires the plan proponent to comply with applicable provisions of the Bankruptcy Code, including the disclosure and solicitation of requirements of sections 1125 and 1126.

33. I understand that NBK solicited votes on the Plan in accordance with the Court's order that directed NBK, among other things, to transmit the Disclosure Statement and Plan to the Voting Classes. Further, I understand that NBK complied with the notice requirements by (i) noticing and soliciting acceptances from Holders of Claims in the Voting Classes; and (ii) noticing but not soliciting votes to accept or reject the Plan from Holders of Claims and Interests in the Non-Voting Classes. As I understand it, Voting Classes are classes of claims which are receiving something of value under the Plan but are not being paid in full or getting the full legal benefit of their claims against the Estate, and Non-Voting Classes are classes of claims which either are (a) being paid in full and thus are deemed to have accepted the Plan under section 1126(f), or (b) are getting nothing of value under the Plan and thus are deemed to have rejected the Plan.

F. Section 1129(a)(3): Good Faith

34. I understand that section 1129(a)(3) of the Bankruptcy Code requires a plan to be "proposed in good faith and not by any means forbidden by law."

35. I believe the Plan satisfies this requirement because it is proposed with the legitimate and honest purpose of liquidating the Estate and maximizing value for creditors through a competitive auction process. Any bidder (including insiders of the Debtor) determined to be qualified by the Trustee can participate in the auction and the Successful Bidder will be determined by the Trustee. Furthermore, to the extent that NBK is the Successfully Bidder, it will fund various

payments under the Plan as set forth above and unsecured creditors will get the benefit of recoveries from any Retained Causes of Action prosecuted by the Liquidation Trustee.

G. Section 1129(a)(4): Payment of Certain Administrative Payments

36. I understand that Section 1129(a)(4) requires the Court to approve all payments made or to be made by NBK as the Plan proponent for services or costs and expenses in or in connection with the case and Plan to be approved by the Court as reasonable.

37. I believe the Plan satisfies section 1129(a)(4) because all fees for services rendered and expenses incurred by the Trustee and other professionals in connection with this case, including all Professional Fee Claims, are subject to review and approval by the Court. Only Allowed Professional Fee Claims based on all final requests for payment filed no later than 45 days after the Effective Date (in accordance with Bankruptcy Code procedures, Bankruptcy Rules, and prior Court orders) will be paid. I understand that NBK's costs and expenses incurred in connection with this Chapter 11 Case or proposing the Plan will not be paid from the Estate.

H. Section 1129(a)(5): Governance Disclosure Requirement

38. I understand that section 1129(a)(5) requires the plan proponent to disclose the identity and affiliations of new directors or officers to serve in such capacity for the Debtor and the identity of any insider to be employed by the Debtor.

39. I believe the Plan satisfies section 1129(a)(5) because (a) the Estate will be liquidated and no new directors or officers are being appointed for the Debtor and (b) Article VI of the Plan and the Plan Supplement (containing the Liquidation Trust Agreement) provides information about the Liquidation Trustee (the current Trustee) and the way the trustee will be selected, which is consistent with the Bankruptcy Code and the interests of creditors and public policy.

I. Section 1129(a)(6): The Plan Does Not Require Regulatory Approval

40. I understand that section 1129(a)(6) permits plan confirmation only if any regulatory commission that has or will have jurisdiction over a debtor after confirmation has approved any rate change (e.g., the price of utility services) provided for in the plan.

41. I believe this requirement does not apply to the Plan because no governmental regulatory commission has jurisdiction over the Debtor or will have jurisdiction over the Debtor after confirmation of the Plan.

J. Section 1129(a)(8) and (10) and 1129(b): Acceptance by Impaired Classes

42. I understand that, in combination, sections 1129(a)(8), 1129(a)(10) and section 1129(b) provide that if not all classes of claims or interests accept the Plan or are unimpaired, a Plan may still be confirmed under section 1129(b) if at least one impaired class of claims accepts the Plan, without counting the votes of insiders. Because the Impaired Classes 4, 5(a) and 5(b) which contain only non-insiders voted to accept the Plan, I understand the Plan may still be confirmed and "crammed down" on the Impaired Classes 6, 7 and 8 that are deemed to reject the Plan based these sections of the Bankruptcy Code.

K. Section 1129(a)(9): Treatment Of Administrative And Priority Tax Claims

43. I understand that section 1129(a)(9) generally requires that claims entitled to administrative priority be paid in full in cash on the Effective Date or in the ordinary course of business and that priority tax claims also be paid in full on the Effective Date or paid over time pursuant to certain payment terms provided in the Bankruptcy Code.

44. I believe the Plan satisfies this requirement because Article II of the Plan provides for full payment of Administrative Claims and Priority Tax Claims on the Effective Date or as soon as reasonably practicable thereafter.

L. Section 1129(a)(11): Feasibility

45. I understand that section 1129(a)(11) requires a plan to be feasible. I believe that the Plan is feasible because it ensures the payment of claims regardless of the outcome of the auction. Attached as Exhibit A is a true and correct copy of the 2023 annual report for National Bank of Kuwait S.A.K.P. (the New York Branch does not publish separate public reports of its financial condition). I understand based on this report that the bank's profit for 2023 was $1,918,086,000 and that as of December 31, 2023 the bank held cash and other short term funds in the amount of $14,294,050,000. *See* Exhibit A at 119-21.

M. Section 1129(a)(12): Full Payment of Statutory Fees

46. I understand that section 1129(a)(12) requires all fees payable under section 1930 of title 28 of the United States Code to be paid when due and payable, and that section 507 of the Bankruptcy Code provides that those fees be treated as administrative expenses. I believe the Plan satisfies this requirement because Article XI of the Plan provides for the payment of all statutory fees until this case is converted, dismissed or closed.

N. Section 1129(a)(13): Retiree Benefit Obligations

47. I understand that section 1129(a)(13) of the Bankruptcy Code requires a plan to provide for retiree benefits at levels established pursuant to section 1114 of the Bankruptcy Code.

48. I believe this requirement does not apply to the Plan because there are no retiree benefit obligations of the sort described in section 1114 of the Bankruptcy Code. To the extent applicable, I believe that the Plan satisfies section 1129(a)(13) of the Bankruptcy Code.

O. Section 1129(a)(14)-(16): Not Applicable

49. I believe that sections 1129(a)(14), 1129(a)(15) and 1129(a)(16) of the Bankruptcy Code do not apply because the Debtor: (i) is not an individual or subject to any domestic support obligations; and (ii) is a moneyed, business, or commercial corporation.

P. Section 1129(b): The Plan is Fair and Equitable to, and Does Not Unfairly Discriminate Against, Rejecting Classes

50. I understand the Court can cramdown an impaired class of creditors and equity security holders under section 1129(b) if all the requirements of section 1129(a), except section 1129(a)(8), are met and the plan does not "unfairly discriminate" and is "fair and equitable" with respect to each impaired claims or interests that has not accepted the plan.

51. I believe the Plan satisfies the cramdown requirements. In particular, the Plan does not unfairly discriminate against Classes 6 (Insider Claims), 7 (Subordinated Claims) and 8 (Interests), which are deemed to reject the Plan, because there is a reasonable basis for separately classifying those Claims and Interests based on the different facts that give rise to these Claims and Interests. . In addition, section 1129(a)(10) permits the separate classification of, for example, the Insider Claims because their votes would not have counted in determining whether the Impaired Claims in Class 5(b) have accepted the Plan, and the Class 5(a) Claims are dissimilar from the Claims in Classes 6, 7 and 8.

52. I also believe the Plan is fair and equitable as to the Impaired Classes deemed to reject the Plan because (a) the value of the Property does not exceed the total amount of NBK's claims and therefore these classes would not be entitled to any distributions based on the value of the Debtor and (b) no claim or interest junior to the claims or interests in Classes 6, 7 and 8 receive any recovery under the Plan.

R. Section 1129(d): Avoidance of Taxes and Securities Laws

53. I understand that section 1129(d) prohibits the Court from confirming "a plan if the principal purpose of the plan is the avoidance of taxes or the avoidance of the application of section 5 of the Securities Act of 1933."

54. As described above, the principal purpose of the plan is to maximize value through a court-approved, public auction process and distribute value to creditors as set forth in the Plan. Further, the Plan does not seek to avoid taxes (Article II.C of the Plan provides for the full payment of Allowed Priority Tax Claims) or section 5 of the Securities Act (as no securities are being issued under the Plan). I am not aware of any tax obligation of the Estate that will be avoided if the Plan is confirmed.

S. Waiver of Stay of Confirmation Order

55. I understand that Bankruptcy Rules 3020(e) effectively stays an order confirming a plan for 14 days, unless otherwise ordered by the Court.

56. I believe that the Court should modify the stay, to the extent applicable, and make the Confirmation Order effective immediately upon entry for the following reasons. First, the entry of the Confirmation Order will enable the Chapter 11 Trustee to effectuate the sale of the Property contemplated in the Plan, with the Successful Bidder knowing that the terms of the Plan have otherwise been approved. Second, immediate entry and effect of the Confirmation Order will permit the sale to close and the Plan to go effective promptly. I understand that the auction is scheduled for the day after the confirmation hearing. Third, permitting the Plan to go effective as promptly as possible will minimize additional administrative and professional costs associated with being in chapter 11.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury, under the laws of the United States of America, that the foregoing statements are true and correct.

Dated: June 14, 2024

/s/ *Michael C. Carter*
Michael C. Carter
Vice President

Exhibit A

National Bank of Kuwait 2023 Annual Report

الوطني
NBK

Annual Report
2023

Empowering Tomorrow:
Navigating a Digitized and Sustainable Future

HH Sheikh

Mishal Al-Ahmad Al-Jaber Al-Sabah

Emir of the State of Kuwait

NBK at a Glance

At NBK, our purpose is to create enduring value and trust for our customers, shareholders, and the communities we serve. Through the integration of sustainability, the prioritization of digital transformation, and a strong belief in the power of our people, we embark on a journey of empowerment. Committed to excellence, transparency, and ESG principles, we aim to positively impact our customers, shareholders, and communities, thus shaping a future where financial success and sustainability go hand in hand. Our commitment to empowering tomorrow is the cornerstone of our endeavors as we navigate the dynamic landscape of digitization and sustainability.

Operational Performance and Profitability

4
Continents

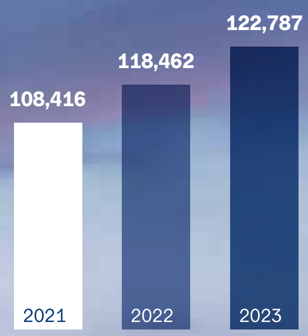
8,049
Global Employees

1.38%
NPL Ratio

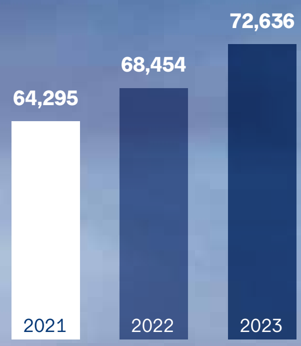
15.0%
Return on Average Equity

122.8
USD Billion Total Assets

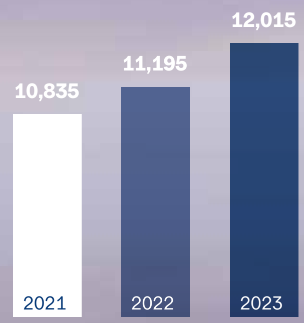
17.3%
Capital Adequacy Ratio



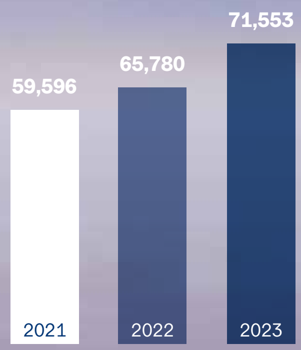
Total Assets (USD million)



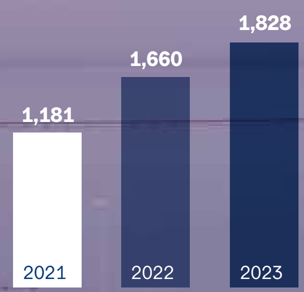
Loans, Advances and Islamic Financing (USD million)



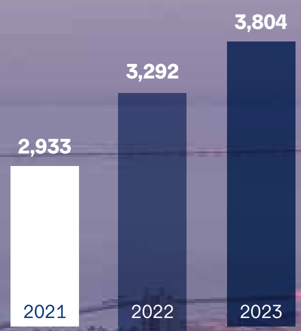
Total Equity (USD million)



Customer Deposits (USD million)



Net Profit Attributable to Shareholders (USD million)



Net Operating Income (USD million)

About NBK

Established in the heart of Kuwait City in 1952, the National Bank of Kuwait S.A.K.P. ('NBK' or the 'Bank') stands as the cornerstone of the nation's financial landscape. As the first shareholding company in Kuwait and the Gulf Cooperation Council ('GCC'), NBK has been a steadfast pioneer, establishing itself as the country's longest-serving local bank. With over 70 years of unwavering commitment, NBK has evolved into Kuwait's preeminent financial institution, extending its influence far beyond national borders to captivate regional and global markets. Through a successful digital transformation journey, NBK has seamlessly blended tradition with innovation, earning acclaim and trust among stakeholders. Today, the Bank boasts a network of more than 140 branches spread across 13 countries, spanning 4 continents.

Established by a group of leading Kuwaiti merchants, NBK has retained its core shareholder base since inception. Its shares have been listed on the Kuwait Stock Exchange since 1984, with a single shareholder (the Public Institution for Social Security) owning more than 5% of the share capital (6.0% as of 31 December 2023). NBK's market capitalization as of 31 December 2023 was USD 23.1 billion.

Renowned for its seasoned and stable management, NBK pursues a clear strategy aimed at strengthening its core business while expanding into new segments and markets. The Bank has consistently achieved remarkable profitability, resulting in robust shareholder returns. This success is underpinned by a portfolio of high-quality assets and a robust level of capitalization.

NBK prides itself in being a comprehensive financial partner, offering a diverse range of products and services. Catering to individuals, corporates, and financial institutions alike, NBK has solidified its position as Kuwait's leading conventional banking Group in terms of assets, customer deposits, and customer loans and advances, *all the while Empowering Tomorrow and Navigating a Digitized and Sustainable Future.*

Vision

The trusted bank of choice, building on our core values, people and expertise

Mission

- To deliver world class products and the highest service quality to our customers
- To attract, develop and retain the best banking talent in the region
- To support the communities in which we operate
- To adhere to our core values of passion, integrity, conservatism and knowledge
- By doing so, we believe that we will be able to achieve consistently superior returns to our shareholders

Values

- Passion
- Integrity
- Conservatism
- Knowledge

Main Business Segments

- Consumer Banking
- Corporate Banking
- NBK Wealth
- Islamic Banking (through subsidiary Boubyan Bank)

Contents

Strategic Review

For over seven decades, we have been dedicated to nurturing the success of our stakeholders in Kuwait, the broader region, and globally, empowering them to thrive and flourish. Our journey is one of unwavering commitment to sustainability, digital transformation, and the paramount importance of people.

Empowering Tomorrow: Navigating a Digitized and Sustainable Future

Our journey is one of unwavering commitment to sustainability, digital transformation, and the paramount importance of people. Through strategic initiatives and forward-thinking practices, we have navigated a path that integrates sustainability, embraces the transformative power of digital innovation, and places people at the heart of our endeavors. We are responsible stewards and we recognize that the value we create today and the plans we lay for tomorrow should contribute to a legacy that endures.

Our 2023 Annual Report reflects a journey marked by sustainable growth, technological advancement, and a profound dedication to the well-being and empowerment of individuals as we aspire to leave an indelible mark, a legacy of positive influence and lasting value.

For over seven decades, we have been dedicated to nurturing the success of our stakeholders in Kuwait, the broader region, and globally, empowering them to thrive and flourish. In 2023, we strategically invested our time and resources to unlock unprecedented opportunities for individuals and businesses alike, aligning with our resolute commitment to serve their best interests.

As we recount our achievements, challenges, and aspirations, we invite you to join us in shaping a future where sustainability, digital excellence, and the well-being of people converge to deliver value, empower individuals, and create a lasting positive impact for today, tomorrow and the future.

Empowering tomorrow is when
We Listen to Our Customers

Central to our strategy is fostering meaningful conversations with our clients, establishing the groundwork for enduring relationships built on trust. Our responsive support services ensure that clients receive seamless assistance anytime, anywhere, reaffirming our commitment to their financial well-being and developing a lasting, trusted relationship. Embracing a customer-centric philosophy, we assimilated valuable feedback from our clients, ensuring an intuitive and personalized interface across all interactions.

Launched the First Digital Bank in Kuwait - "Weyay"

Empowering tomorrow is when
We Engage with Our People

At NBK, we are continuously engaging with our employees in shaping our journey of excellence; it is embedded in our mission and is our comprehensive commitment to their well-being and professional growth.

Across the Group, we maintain an ongoing dialogue with our workforce, attentively listening to their needs, allowing us to proactively address their aspirations and provide valuable support throughout their individual journeys within the Bank, ensuring that NBK remains the preferred employer of choice.

Achieved Employee Sustainable Engagement score of 84%

Empowering tomorrow is when
We Support National Initiatives

NBK is committed to supporting the Kuwait National Development Plan – Vision 2035 initiative to promote environmental, social, and economic prosperity, in line with the country's net zero pledge. In this context, NBK committed to achieve carbon neutrality by 2060, and we pride ourselves with being the only institution in Kuwait to have a carbon neutrality pledge. As part of this commitment, we have set interim goals to reduce our gross operational emissions by 25% by 2025 and are actively exploring innovative research and development technologies to magnify our reliance on renewable energy beyond 2025. We have been reporting our ESG practices in line with Kuwait's National Development Plan since 2016 as part of our commitment to support Kuwait's sustainability plans and ambitions as a leading financial service provider in Kuwait and the region.

Community Contributions: KD 28 million in 2023

Empowering tomorrow is when
We Invest in Our Communities

At NBK, we are deeply committed to fostering positive change and nurturing the well-being of the communities we serve. Our overarching objective is to enhance our social impact and steadfastly prioritize ongoing, substantial investments in community development. Our community investment initiatives are strategically aligned with key focus areas, including optimizing customer service and advocacy, promoting financial inclusion, enhancing accessibility and literacy, and ensuring customer protection, as well as data privacy and security.

In this context, NBK launched the "Bankee" financial literacy program in Kuwait with the aim to increase financial literacy and inclusion among school students at a young age, equipping them with the right skills and knowledge to recognize the value of the resources at the reach of their hands.

Bankee Initiative: 15,130 students - boarded from 30 schools

Empowering tomorrow is when
We Protect the Environment

As a Group, we continue to champion environmental sustainability in our unwavering dedication to minimizing our carbon footprint. The LEED Gold Certification awarded to NBK's HQ in 2022, symbolizes our strides towards a greener future, recognizing our achievements and serving as a catalyst propelling us into the forefront of sustainable practices. In 2023 and beyond, we are poised to leverage our LEED Gold Certification as a cornerstone for further environmental leadership and innovation. Building on this achievement, our strategy involves continuous improvement and the implementation of cutting-edge sustainable practices.

Within our efforts to lead responsible practices, NBK joined the United Nations Global Compact (UNGC) in February 2023, committed to adopt all ten principles in the areas of human rights, labor, the environment, and anti-corruption. Our endorsement to the UNGC reaffirms our catalyst role in driving Kuwait's sustainable economic development.

Joined the United Nations Global Compact (UNGC)

Empowering tomorrow is when
We Cultivate a Unique Culture

In our collective pursuit of fostering a workplace culture grounded in the principles that define NBK, our unique "I Am NBK Principles" program aimed at recognizing and nurturing outstanding behavior among employees stands as a testament to our dedication. This distinctive initiative not only serves as a powerful means of acknowledging and understanding our core values, but also plays a pivotal role in instilling a sense of purpose and unity within our workforce.

"I Am NBK Principles" program distinguishes itself with unparalleled uniqueness within Kuwait's Banking sector. Its innovation lies in its structure and in the genuine esteem it commands from our valued employees as the intrinsic worth of this initiative extends far beyond routine recognition efforts; cultivating an environment where individuals are not only acknowledged for their contributions, but are also inspired by the overarching principles of NBK.

Empowering tomorrow is when
We Foster Financial Growth

NBK is a leading provider of corporate banking products and services that cater to various business needs. We have a long history of transforming landscapes and empowering corporates to achieve their aspirations. We believe that empowerment is more than just numbers; it is also about supporting economic growth and providing financial resources for businesses to thrive. We are dedicated to fostering innovation and success in the corporate sector and the economy. We deliver customized financial solutions that are perfectly suited to meet diverse organizational requirements.

Fostering the growth of our mid-sized corporate clients

I AM NBK Principles

Empathy

Excellence

Accessibility & Availability

Communication

Consistency

Integrity

Teamwork

Trust

Chairman's Statement

Hamad Mohamed Al-Bahar
Chairman

"Empowering Tomorrow: Navigating a Digitized and Sustainable Future", marks our dedication to fostering innovation, cultivating environmental stewardship, and embracing technological advancements.

By strategically diversifying our portfolio and services, we mitigate risks and capitalize on emerging opportunities, demonstrating our commitment to adaptability and long-term stability.

Dear Shareholders, Investors and Partners,
On behalf of the Board of Directors, it is with great pleasure that I present to you the National Bank of Kuwait's 2023 Annual Report and audited financial statements for the year ended December 31, 2023.

As I reflect on the past year, I am filled with pride and gratitude for the remarkable journey we have undertaken together, one defined not only by financial accomplishments but, more importantly, by the values that shape our identity and the commitment to ESG principles that underscore our impact on Kuwait and the world.

"Empowering Tomorrow: Navigating a Digitized and Sustainable Future", marks our dedication to fostering innovation, cultivating environmental stewardship, and embracing technological advancements that will shape a resilient and equitable world for generations to come. We strive to harness the power of digital transformation and sustainability initiatives, working hand in hand with communities, businesses, and individuals to build a brighter and more inclusive future.

2023 was a year of challenges underpinned by local and regional regulatory tightening and political volatility in Kuwait and in the world more broadly, in addition to a slowing but still prevailing global inflation. However, our strategy demonstrated our resilience, our commitment to our customers and our promise for a trusted banking relationship. NBK managed to do well and to deliver on its promises to stakeholders. Our concerted efforts yielded in significant improvements across all key ratios compared to the previous year and demonstrated the potential and resilience of our strategy established years ago. NBK's role as a trusted institution solidifies our position as a safe haven for investors, depositors, wealth management clientele, individuals, and corporates.

Innovation and Diversification at the Core
This year was underscored by the launch of NBK Wealth, consolidating private banking and asset management businesses under one leadership. This transformational journey was based on the adoption of innovation as the core of our value proposition through a holistic client-centric approach. Many successes have been pinned since then, adding to our portfolio of achievements and "firsts" in Kuwait and beyond, widely recognized by prominent awards and ratings. More importantly, the prevailing success of our institution can be primarily ascribed to the tactical diversification approach we adopt at our core. By strategically diversifying our portfolio and services across different geographies, we mitigate risks and capitalize on emerging opportunities, demonstrating our commitment to adaptability and long-term stability.

Digital Transformation
Building on this foundation, our relentless focus on digital transformation has borne fruit. The successful digitization of our Bank and the seamless transition of our valued customers to digital banking platforms reflect our dedication to staying ahead of the curve. We take pride in our pioneering role in launching Weyay, the first digital bank in Kuwait, a testament to our commitment to trendsetting in the market since we embarked on this journey a few years ago. Our digital banking strategy has proven instrumental in customer acquisition, particularly while tapping into the tech-savvy and the youth segments, positioning us as the bank of tomorrow.

People Power
Throughout 2023, we continued our investment in our greatest asset, our people. Our team comprises experienced, skilled, and motivated professionals who have steered our bank in the right direction, contributing significantly to our ongoing success. Recognizing the pivotal role our workforce plays, we remain deeply engaged with every function, fostering cohesive synergies both locally and internationally across the Group. Their dedication and expertise drive our daily operations and form the bedrock of our strategic initiatives, ensuring sustained growth and resilience in an ever-evolving financial landscape.

National and Ethical Excellence
Consistently, our support to national prosperity remains prime within the country's strategic Vision 2035 framework, the Kuwait National Development Plan (KNDP), and beyond. Our continuous fulfillment of our national duty serves as a catalyst for national development. We maintained our strong relationships with regulators both in and outside Kuwait, working hand in hand with them to improve the banking and business environment. We have successfully navigated challenges in our international presence, strengthening our footprint in the 13 countries where we operate through strategic moves on both conventional and Islamic banking fronts. Our continuous expansion efforts focus on maximizing our presence and customer base across our growth markets in the MENA region while concurrently building a global network that facilitates our customers' trade, investment, and broader banking requirements.

35%
Total recommended cash dividends to be distributed to shareholders in 2023

Our governance framework is a dynamic and proactive system that fosters transparency, accountability, and ethical conduct at every level.

Looking ahead to 2024, our expansion targets Kuwait as the main market, with strategic moves into the GCC. We plan to strengthen our footprint in existing markets through strategic investments, and we eagerly anticipate government led business activity that will spur growth in the domestic banking market. We aim to implement our successful digital banking value proposition in other markets, with a keen eye on the MENA region.

I am proud to confirm once again our unwavering commitment to the highest standards of ethics and corporate governance. Our governance framework is a dynamic and proactive system that fosters transparency, accountability, and ethical conduct at every level. The Board, in collaboration with our dedicated leadership team, ensures that strategic decisions align with our core values and serve the best interests of our shareholders.

NBK held its 2022 Annual General Meeting (AGM) on 18 March 2023, with a quorum of 71.47%. The AGM approved the Board of Directors' recommendation to distribute 25% cash dividends to shareholders for the second half of the financial year (25 fils per share; bringing total cash dividends for the year to 35 fils per share) in addition to 5% bonus shares (5 shares for every 100 shares owned).

Moreover, the Board of Directors recommended the distribution of 25 fils per share for the second half of 2023, bringing the total cash dividend distribution for the year 2023 to 35 fils per share, in addition to 5% bonus shares. That brings the cash payout ratio for 2023 to 50% of the profits attributable. This step demonstrates NBK's solid capital adequacy, confidence in its financial position, and ability to generate profits.

NBK's commitment extends beyond financial success, with a dedicated focus on responsible banking, fostering economic prosperity, and contributing to sustainable development.

We are Resilient for Tomorrow and Beyond,
The year 2023 witnessed NBK's unwavering dedication to Environmental, Social, and Governance (ESG) principles, building on the momentum gained after a landmark year in 2022. Recognizing the global imperative for sustainable growth, NBK made significant strides in ESG, earning recognition and solidifying its position as a responsible corporate entity.

In 2022, NBK's Executive Management approved the Group's new ESG Strategy and key ESG strategic initiatives; while in 2023, we finalized the Bank's ESG Governance Framework that outlines a comprehensive governance structure with specialized committees to drive ESG Strategy implementation across the Bank by assigning each ESG strategic pillar to a member of the Executive Management as key owners. It ensures utmost levels of accountability and commitment are maintained to support the Bank in achieving its ESG-related KPIs and ambitions, defining clear deliverables and milestones, and establishing accountability with the Board's oversight to achieve our ambitions and targets.

In line with the ESG Strategy, we crafted a comprehensive 3-year roadmap, outlining key targets and commitments in areas where the Bank holds the greatest potential. This strategic framework aims to drive a sustainable and equitable transition to a low-carbon economy, delivering a positive social impact on people and communities. Our ESG Governance Structure is based on the four pillars of NBK's evolved ESG Strategy Framework and focuses on promoting economic prosperity and serving as a model for sustainable development. The four pillars of our ESG Strategy are: Governance for Resilience, Responsible Banking, Capitalizing on Our Capabilities, and Investing in Our Communities.

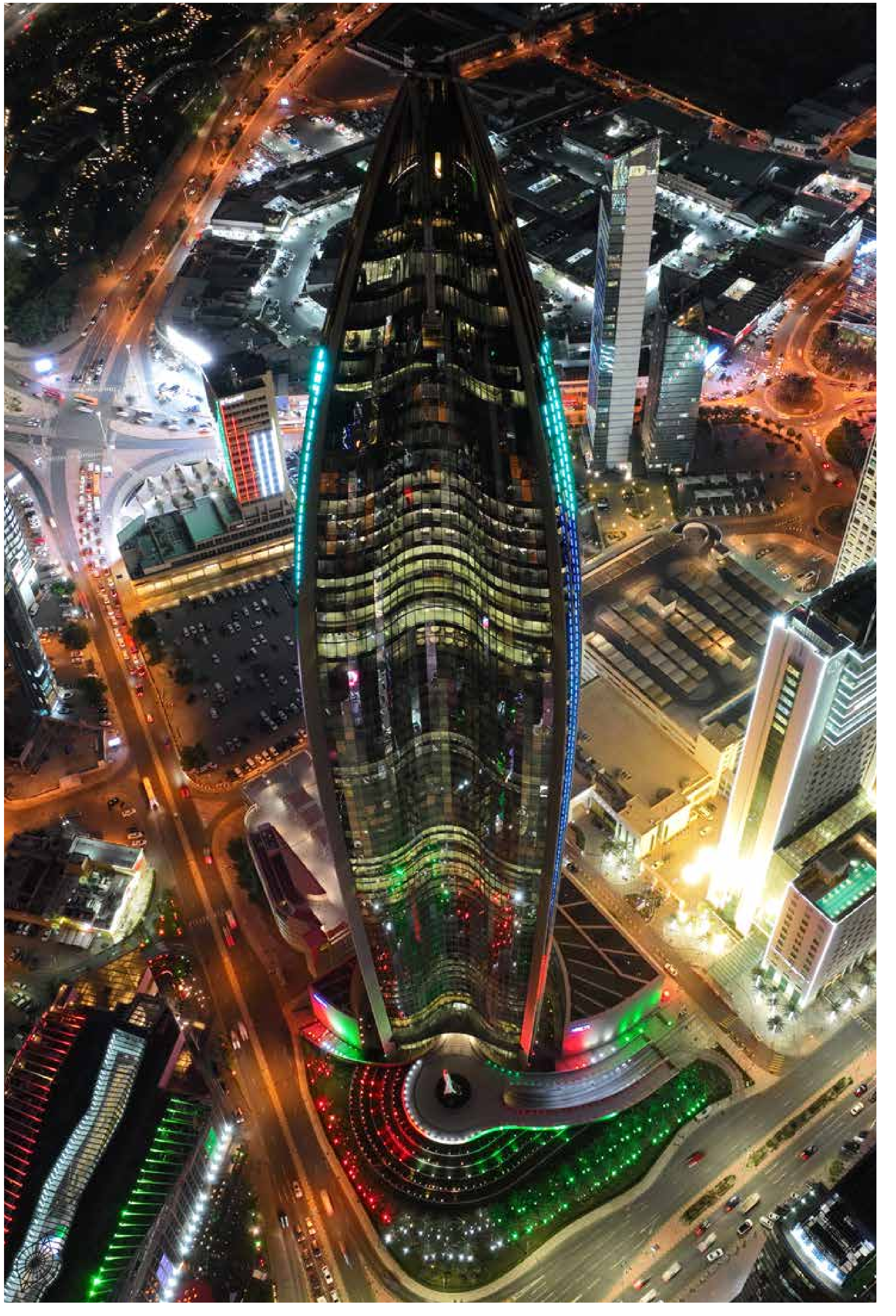
ESG has always been a key element in our strategic focus across the years. Our new ESG Strategy draws a clear pathway forward by integrating ESG into the Group's business strategy and shifting our approach to a pro-active, stakeholder driven stance.

Looking ahead, we acknowledge the prevailing uncertainties in the landscape. The challenges tied to political tensions and economic issues will undoubtedly test the resilience of the banking sector, challenging its capacity to support and safeguard customers. However, I assure you that our focus will be sharper, our resolve stronger, and our ambitions higher and I maintain confidence that our strategic vision and commitment to being a purpose-driven business will help us navigate these challenges and fortify the long-term future of the Group, yielding benefits for all our stakeholders.

We will embark on the next phase of our journey together, with knowledge and a sense of purpose, driven by our values and culture.

Thank you for your continued trust and partnership

Acknowledgments
On behalf of the Board, I would like to extend my sincere gratitude to all our stakeholders for their continued support. I would also like to thank my fellow directors and our executive management for their dedication and invaluable contributions bringing our mission to success in 2023. To our customers, we highly value your continued trust and confidence in NBK, and we are steadfast in our commitment to providing you with a valuable relationship that goes beyond bank offerings. A special acknowledgment goes to our devoted team; your dedication and tireless efforts are the backbone of our success. On a final note, thanks are also due to the Central Bank of Kuwait and the Capital Markets Authority for their persistent efforts in advancing the banking sector. To our valued shareholders, thank you for your enduring support as we strive to solidify NBK's leadership in the Kuwaiti banking sector.



Year in Review

January

- NBK becomes the First Financial Institution in Kuwait to Align with the State's Pledge to become Carbon Neutral by 2060
- NBK Embraces Environmental Transparency by Disclosing through CDP
- NBK Introduced New Designs fo All Its Cards
- NBK Donates KD 13 million for NBK Hospital Expansion

February

- NBK Joins the United Nations Global Compact
- NBK Donates KD 1 Million to Support KRCS' Relief of Quake-affected in Syria and Turkey
- NBK Launches Its New Mobile Banking Application
- NBK is the First Bank in Kuwait to Introduce SWIFT g4C Service
- NBK Contributes KD 3 Million for the Development of Shuwaikh Waterfront

March

- NBK Banque Privée Suisse Relocates to a New Headquarters in Geneva
- NBK's AGM approved distribution of 25% cash dividends for 2H22 and 5% bonus shares
- NBK Recognized With Visa's "Excellence in Product Design Award"
- NBK provides Multi-currency Cash Delivery Service for its customers

April

- NBK unveiled one-of-a-kind Commercial Credit Cards for Corporate Customers

May

- NBK Launches the New "Plus" Package with Exceptional Benefits for retail customers
- NBK Partners with Visa to Launch 'She's Next' Program for the First Time in Kuwait
- NBK Provides Cash Withdrawal through Digital Wallet

June

- NBK Launches the Eighth Cohort of Its "High-Fliers" Program
- NBK organized Blood Donation Campaign for its staff

July

- NBK Launches Enhanced IVR Services
- NBK Publishes its Annual Sustainability Report 2022
- SmartWealth by NBKC Launches Its Investment Services on the NBK Mobile Banking Application

August

- NBK Academy Celebrates the Graduation of Wave 28
- NBK Enables Complaint Submission via NBK Mobile Banking Application
- NBK Supports the Kuwait Dive Team Project To Protect Coral Reefs

September

- NBK Launches "NBK Tech Academy"
- NBK Launches "Credit Administration and Credit Operations Certification"
- NBK Opens Its New Branches at Al Khiran Hybrid Outlet Mall and at The Warehouse Mall in Subahiya

October

- NBK Officially Launches «Bankee» in Cooperation with MoE and «Nazaha»
- NBK Attends the Annual Meetings of IMF and the World Bank Group
- NBK and PT Kilang Pertamina Internasional Sign Strategic MOU at ADIPEC 2023

November

- NBK Organizes a Training for Financial Crime Unit Officers
- NBK Recognized by Mastercard for "Driving E-Commerce Tokenization for Seamless Checkout"
- NBK Hosts CreditLens Workshop for Kuwaiti Bankers
- NBK Organizes "Collective Executive Development Program" in Cooperation with INSEAD Business School
- New Innovative Features Introduced to NBK Mobile Banking Application

December

- NBK Completely Revamps "Moody's Credit Curriculum – Foundation Level" Program
- NBK Partners with Qatar Airways and British Airways to Launch NBK Avios Visa Signature Card
- NBK inks a financing facility to fund P-1 of The Avenues Al Khobar
- NBK Hosts a Media Awareness Workshop on Sustainability and Climate Change

Institutional Strength

Credit Ratings

NBK is a robust financial institution, as demonstrated by the trust that its customers and shareholders have placed in it, as well as its long-term credit ratings.

Rating agency	Long-term rating	Standalone rating	Outlook
Moody's	A1	a3	Stable
Standard & Poor's	A	a-	Stable
Fitch Ratings	A+	a-	Stable

Awards and Accolades

Global Finance

- Best SME Bank Award - Kuwait 2023
- Best Private Bank for Sustainable Investing - ME 2023
- Best Foreign exchange Provider - Kuwait 2023
- Best Foreign exchange Provider - ME 2023
- Best Bank in Kuwait 2023
- Best Trade Finance - Kuwait 2023
- Best Bank for Cash Management in Kuwait 2023
- Top Innovations in Finance in Kuwait 2023 – Mobile Banking / Apps
- Best Financial Innovation Lab in Kuwait for 2023 - NBK Group Digital Office
- Best Consumer Digital Bank in Kuwait 2023
- Best Online Product Offerings - Kuwait 2023
- Best Bill Payment and Presentment - Kuwait 2023
- Best User Experience (UX) Design - Kuwait 2023
- Best Mobile Banking App - Kuwait 2023
- Best in Social Media Marketing and Services - Kuwait 2023
- Best Innovation and Transformation - Kuwait 2023
- Best Product Offerings – Middle East 2023
- Best Mobile Banking App – Middle East 2023
- Best Innovation and Transformation – Middle East 2023
- Best Consumer Digital Bank - Middle East 2023
- Best Innovation and Transformation - Global 2023

- Best Bank for Corporate Responsibility in the Middle East 2023 (Euromoney)
- Best Bank in Kuwait 2023 (Euromoney)
- Best Bank for CSR in Kuwait 2023 (Euromoney)
- Euromoney Cash Management survey 2023- Kuwait (Euromoney)
- Best Retail Bank – Kuwait 2023 (MEED)
- Best Youth Programme Initiative 2023 (MEED)
- Excellence in Service: Priority Banking 2023 (MEED)
- Best Initiative for Women in Business 2023 (MEED)
- Best Implementation of Diversity & Inclusion Initiatives 2023 (MEED)
- Best Trade Finance 2023 - Kuwait (GTR)
- Bankee Program - Bronze (Qorus)
- SME Bank of the year - Silver (Qorus)
- Digital payments - Bronze (Qorus)
- self service branches - Gold (Qorus)
- Excellence in Diversity & Inclusion - Bronze (SHRM)

MSCI ESG RATINGS BBB

NBK's rating at 'BBB' per the MSCI audit

FTSE4Good

Constituent of the FTSE4Good Index Series

Brand Finance®

Number 1 Banking Brand in Kuwait

CDP DISCLOSURE INSIGHT ACTION

"C" Score for 2023 for both the Climate Change and Forests Categories

Vice Chairman & Group CEO's Statement

Isam J. Al-Sager
Vice Chairman & Group Chief Executive Officer

2023 marked a year of positive progress and sustained stability for the Group, with our financial indicators demonstrating strong performance.

In 2023, NBK delivered exceptional results as it leveraged its geographical diversification, digital advancement, and strong financial position.

Rigorous compliance with local and international regulations is not only a legal requirement, but a fundamental commitment to ethical business practices.

Dear Shareholders, Investors and Partners,
I am pleased to share with you that 2023 marked a year of positive progress and sustained stability for the Group, with our financial indicators demonstrating strong performance. Our local and international businesses have adeptly driven the Bank forward, creating value for our shareholders and reinforcing our Group financial strength.

Total assets as at 31 December 2023 reached KD 37.7 billion, growing by 3.7% year-on-year. The growth was mainly attributed to healthy growth levels in volumes across various business lines. Attributable shareholders' equity reached KD 3.7 billion, while profits attributable amounted to KD 560.6 million. NBK ROAA is sound and healthy at 1.53% in 2023, compared to 1.48% in 2022. The payout ratio for the year remained stable at 50% of net profits, resulting in total cash dividends of 35 fils per share; an explicit indicator of confidence in the capital health of NBK and its commitment to reward and maximize the interest of shareholders. Meanwhile, customer deposits ended the year at KD 21.9 billion, increasing by 8.8% over 2022, our net loan portfolio witnessed a growth of 6.1% to reach KD 22.3 billion.

By the end of 2023, our NPL/gross loans ratio reached 1.38%, and our NPL coverage ratio was 271%, affirming NBK's success with its proactive risk management approach over the years. In 2023, NBK delivered exceptional results as it leveraged its geographical diversification, digital advancement, and strong financial position, strengthening our revenue streams while continuing to benefit from our prudent policies over the years in the form of solid asset quality and strong capitalization; with NBK's market capitalization at KD 7.1 billion as of 31 December 2023.

Market Outlook
In 2023, Kuwait faced challenges similar to the rest of the world, including high and persistent inflation, higher interest rate cycle and supply chain disruptions leading to slower global economic activity. However, the year also presented opportunities captured in sustained high oil prices, resilient consumer spending, increased project market activity, positive employment and population growth, gains in the refining sector, and a less aggressive approach to monetary policy tightening, contributing to Kuwait's macroeconomic experience.

The aggressive interest rate hikes in regional and major economies resulted in significant improvement in the financial performance of the banking sector in the last two years. NBK benefitted from rising interest rates given its large base of less-interest-sensitive Current Account Saving Account (CASA) balances, which contributed to the increase of the Bank's net interest margin.

Managing Interest Rate Risks
Consequently, management of interest rate risk was a major focus during this year backed by the **Group Treasury's** strategy to optimize the Bank's ability to benefit from rising interest rates over the past year. By anticipating and promptly responding to these market dynamics, we aim to uphold the resilience and stability of our financial position with agility and foresight. As we approach the end of the monetary policy tightening cycle, our Group Treasury is taking the necessary actions to position the Bank for next year based on the latest interest rate outlook.

Robust Compliance and Risk Management
In parallel, our dedication to transparency, compliance, and risk management remains unwavering. As a cornerstone of our corporate ethos, transparency is embedded in our communication channels, ensuring that our stakeholders are well-informed about our operations, financial health, and strategic initiatives. Rigorous compliance with local and international regulations is not only a legal requirement, but a fundamental commitment to ethical business practices. Our robust risk management framework proactively identifies, assesses, and mitigates potential risks, safeguarding the interests of our clients, shareholders, and the broader financial community.

Customer-Centricity
Following our relationship-centric model, we stand by our clients, particularly during challenging periods, solidifying our identity as true banking partners rather than mere transaction-focused service providers. In 2023, the **Corporate Banking Group** introduced a pioneering innovation tailored to the specific needs of its clientele by unveiling a suite of commercial cards, first-of-its-kind offering in Kuwait crafted to empower clients with enhanced control over their business expenditures and incorporate a range of distinctive features unmatched by any other card product available in Kuwait.

Network Collaboration
Our core business segments are significant constituents to the growth of NBK's net profits. At the **Consumer Banking Group** front, NBK ranks among top performers across all categories of products, including loans, cards, and liabilities, with a market share of more than 30% in each product category.

We continue to lead with Weyay, Kuwait's first Digital bank, expanding its scope to ink a partnership with Mastercard to be its exclusive cards scheme provider. Our strategy aligns seamlessly with the demographics of our customer base, predominantly composed of Kuwaiti Youth, with more than 80% under the age of 30.

For our **International Banking Group (IBG)**, the overall pipeline of loan approvals grew significantly in 2023 to drive balance sheet growth and revenues. One of the most significant achievements was the drive behind sustainable lending. Cross border network transactions continue to grow in 2023 where teams from different locations have engaged to service NBK's clients with a seamless approach. This networking collaboration has further enhanced our relationship-driven approach.

NBK's digital roadmap has been developed as a living strategy, continuously evolving and transforming while our commitment to digital transformation investment is unwavering.

Boubyan Bank continues to endorse our competitive advantage in the local market as the only banking group with access to conventional and Islamic banking. The Bank is well positioned to continue delivering growth and to contribute positively to the Group's profitability and further solidify our financial position. It is strengthening its Islamic banking franchise in the MENA region and beyond while focusing on digital transformation to achieve its aspiration to become one of the top Islamic banks in the world; offering innovative digital products and services to its customers.

Our continuous investment in our wealth management business is aimed at driving growth as **NBK Wealth** continues to leverage its competitive edge of proven capabilities in tailored products, cutting-edge technology, and quality customer service to provide a seamless cross-border experience for its clients.

NBK Wealth operating model focuses on cementing its value proposition, developing and expanding on its human capital and capabilities, and providing solution-based services, including advisory services, to increase our local, regional, and international clients' share of wallet. It provides a comprehensive suite of solutions to produce solid and sustainable long-term investment returns through a customized strategy; further strengthening our value proposition of providing holistic solutions and delivering the best wealth management experience to our clients.

In 2023, NBK Wealth's in-house regional portfolios outperformed their respective benchmarks across various strategies, and similarly, fixed income strategies also outperformed their respective benchmarks. In parallel, and given the global macroeconomic environment, innovative investment solutions were developed in line with the risk profiling of clients, designed to cater to client requirements and enhance diversification; these solutions include the Islamic Real Estate Financing Fund and the Infrastructure Investment Fund that allow clients to hedge against inflation while generating returns. NBK Wealth also launched new Sharia-compliant investment solutions and ESG equivalent investment solutions; and in collaboration with our strategic partner JP Morgan Asset Management (JPMAM), we developed Hedge Fund and Private Equity secondaries solution and are expected to be available to NBK Wealth clients in 2024.

Digital Transformation Roadmap
NBK's digital roadmap has been developed as a living strategy that is continuously evolving and transforming while our commitment to digital transformation investment is unwavering and continuous. We are dedicated to transcending traditional thinking, persistently striving to maintain our position as the foremost innovator in this field, not only in Kuwait but across our locations.

Looking ahead, NBK's strategic priorities and digital transformation goals for the coming year will be focused on harnessing smart technologies for smart banking. Additionally, through embedded finance, NBK will meet the customers wherever they need to be, seeking new opportunities in the global digital landscape; ensuring NBK is at the forefront of innovation in Kuwait and the region.

Our People
In 2023, our **Group HR** function exerted unwavering commitment in the continuous development of our people, closing the year with 147,701 local and 36,764 international training hours delivered, along with the launching of several academic, motivational, and cultural initiatives. This multifaceted approach aimed not only to enhance their professional skills but also to nurture a holistic growth mindset, fostering a workplace culture that values learning, innovation, and inclusivity. As a result, our people are equipped not just with technical expertise but also with the adaptability and resilience needed to thrive in a rapidly evolving professional landscape.

Throughout 2023, several departments played a vital role in our success with multiple contributions focusing on award-winning innovative solutions as we garnered prestigious awards across various fields.

Our ESG Culture
Our ongoing commitment to **ESG** reached new heights this year. Across our banking strategy and business model, we have pursued ESG as one of the key elements in our strategic focus, and took vital steps to turn it into a transformational force within NBK. Our ESG Strategy evolved from a six-pillar approach to four interrelated pillars designed to reinforce our position as a trusted leader in the emerging business environments of the future.

The year 2023 recorded a KD 28 million investment in community contributions across various sectors including healthcare, education, youth, and women empowerment initiatives. This was further strengthened by joining the United Nations Global Compact (UNGC) in February 2023, whereby we committed to adopt all ten principles in the areas of human rights, labor, the environment, and anti-corruption. Our endorsement to the UNGC reaffirms our role to lead responsible practices that drive Kuwait's sustainable economic development and hence are strategically aligning all our initiatives with the UN Sustainable Development Goals (SDGs).

As part of our commitment to achieve carbon neutrality by 2060, in line with Kuwait's net-zero ambition, we have set interim goals to reduce our gross operational emissions by 25% by 2025 and are actively exploring innovative research and development technologies to magnify our reliance on renewable energy beyond 2025. In conjunction with this commitment, we developed our Sustainable Financing Framework, which provides us with the roadmap for growing our sustainable assets and help us to support our societies in transitioning to a sustainable and equitable economy.

In the workplace, NBK remains dedicated to fostering and prioritizing equal opportunities and championing diversity, equity, and inclusion through strategic initiatives, reinforcing our commitment to talent development and organizational resilience.

As we chart our course into the future, our focus on integrating ESG practices in our operations will be steadfast, emphasizing responsible decision-making and scoring on both sides of the balance sheet. With an overarching goal to empower stakeholders, drive positive societal impact, and deliver superior returns to shareholders, we remain dedicated to our mission. This commitment is fortified by a resilient governance and risk culture, ensuring that strategic decisions align with the Bank's core values and contribute to a sustainable and responsible future.

Dear Stakeholders,
Today, we find ourselves at a pivotal juncture, poised on the cusp of new opportunities and challenges. Our resilient strategy and our proven business model will remain our guiding light for creating and delivering value to our stakeholders, empowering them for tomorrow while steering a Digitized and Sustainable Future. We remain committed to sustaining revenue growth responsibly, strategically investing in our future, catalyzing positive change in transition finance, introducing cutting-edge products and services, advancing our digital capabilities, promoting inclusive community development, and taking a prominent role in making a meaningful impact in economic growth in Kuwait and beyond.

In the pages that follow, you will discover the tangible outcomes of our efforts over the past year. From financial milestones to strategic initiatives, each section of this report unveils our progress and achievement and reflects the spirit that propels us forward, a spirit rooted in a vision that extends far beyond the immediate horizon.

Our resilient strategy and our proven business model will remain our guiding light for creating and delivering value to our stakeholders, empowering them for tomorrow while steering a Digitized and Sustainable Future.

Market Outlook

3.1%
Global GDP Growth Estimated for 2023 (IMF)

USD 82
Average Oil Price in 2023 (ICE Brent/bbl)

Geopolitical Impact

Against the backdrop of a fluid, uncertain global landscape in 2023, marked by significant geopolitical shifts and tensions, Kuwait was indirectly affected by the unfolding narratives of the ongoing Ukraine-Russia war and the conflict in Gaza. These external events cast a distinctive shadow on the geopolitical and economic landscape, shaping the context within which Kuwait navigated its own challenges and opportunities.

The Ukraine-Russia war entered its second year in 2023, with the ramifications of the conflict for the global economy most visible through the energy channel. Europe and the US led the international response to the conflict, curtailing imports of Russian natural gas, crude and petroleum products, and, in concert with their G-7 partners, imposed a price cap on these exports in the global market. Together with OPEC+ supply management, this led to higher price premiums for medium sour barrels such as Kuwait Export Crude over benchmark light sweet crudes such as Brent. The outbreak of hostilities in Gaza and the retaliation by Houthi militias on Western shipping in the Red Sea also raised oil's risk premium, though expectations of a price spike did not materialize, with markets comforted by ample OPEC+ spare production capacity. The risk of conflict escalation nevertheless remains high, while in parallel, potentially stricter enforcement of US sanctions on Iran could lead to some supply curtailment and eventually higher prices.

Global Economic Policies and Trends

The global economy was subject to headwinds in 2023 from tighter monetary policy, unequal growth amongst advanced economies, an underwhelming post-Covid rebound in China and heightened geopolitical risk stemming from the conflicts in Ukraine and Gaza. US economic growth surprised in its robustness amid a relatively tight labor market and solid consumer spending with inflation coming down but remaining above the Fed's 2% target. European economies, meanwhile, were close to recession as high consumer prices and borrowing costs combined with weak external demand amid fallout from the Russia-Ukraine conflict and subdued Chinese growth. With inflation well off its peaks across advanced economies, central banks seemed to be shifting towards interest rate cuts from the second half of 2024, as 2023 drew to a close.

Economic Outlook of Neighboring Countries

GCC economies are expected to grow at a slower pace in 2023-24, as oil production is cut in line with OPEC+ policy (with Saudi Arabia taking on the lion's share of output cuts), and as the global macroeconomic backdrop softens. According to the IMF's Regional Economic Outlook of October 2023, GCC GDP growth is expected at 1.5% in 2023 before accelerating to 3.7% in 2024, with non-oil activity moderating to 4.3% and 4.0% in 2023 and 2024, respectively.

Nevertheless, demand will continue to be strong, supported by rising government spending that focuses on domestic investment, economic diversification-targeting structural reforms and FDI-enhancing measures. Saudi Arabia and the UAE have led the way in this regard. Non-oil growth in Saudi is estimated at 4.9% in 2023 and 4.4% in 2024. Despite the successful economic diversification drive, a sharp weakening in oil prices continues to be the main downside risk. Kuwait could see some benefit from strong growth in neighboring economies, though as an oil-based economy, direct trade linkages are not very large.

Kuwait's Economic Indicators and Trends

Kuwait's non-oil GDP growth was estimated at 2.8% y/y as of Q3 2023 according to official data, while its overall growth was -3.7%, negatively affected by OPEC+ mandated oil output cuts. The performance of the non-oil sector in Kuwait slowed following its post-pandemic, consumption-led surge even while government fiscal policy has been supportive. The government announced a record deficit of KD6.8 billion for its FY23/24 budget, inflated by one-off spending items related to accrued subsidy and salary payments owed from previous years. Growth in consumer spending and bank credit slowed to single digit rates in 2023, while real estate sales activity declined amid elevated residential property valuations and costs of borrowing. Recent readings suggest that 2024 could see a turnaround in the fortunes of the sector, helped by expectations of lower interest rates and government supply-side initiatives.

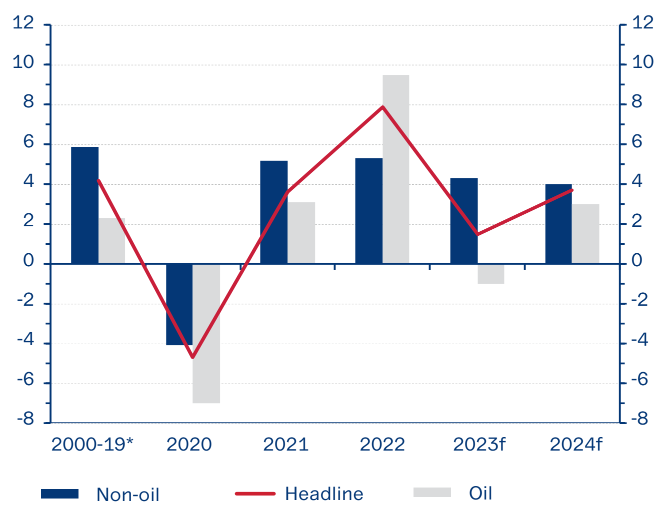
Inflation trended lower by 2023's close to 3.4% y/y, having been range bound at 3.7% for most of the year and influenced by the slowdown in consumer spending. Project market activity, meanwhile, posted its best year since 2017 in the value of contracts awarded. Also, the downstream oil sector was boosted by the completion and ramping up of the Al-Zour refinery.

Meanwhile, the monetary environment tightened in 2023, as the Central Bank of Kuwait loosely tracked the US Fed in hiking domestic interest rates. The key CBK discount rate ended the year at 4.25%, having risen a cumulative 275 bps since March 2022—just over half of the Fed's 525 bps increase over the same period. 2024 should see the Fed begin to loosen monetary policy.

International Oil Price (ICE Brent USD/bbl)

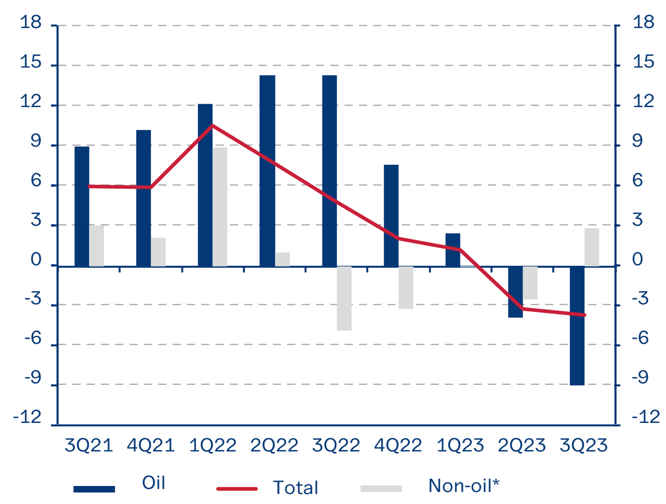
Source: Refinitiv

GCC Real GDP Growth (% y/y)



Source: IMF Regional Economic Outlook (October 2023); *annual average

Kuwait Real GDP Growth (% y/y)



Source: Official sources; Note: 2023 data is preliminary; *includes refining

Kuwait Key Economic Indicators

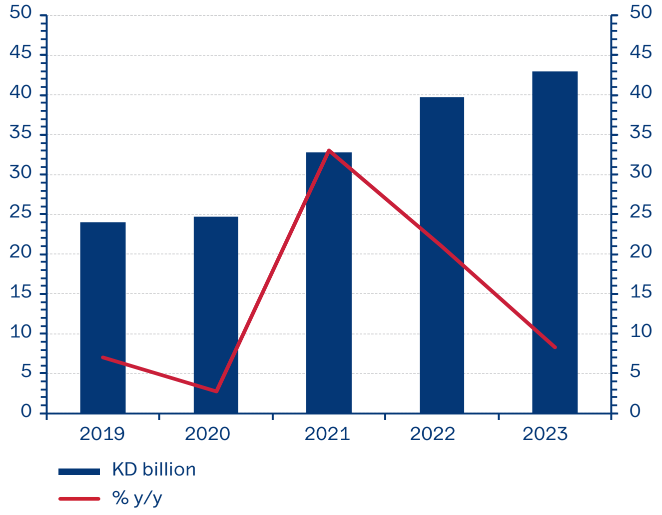
	Units	2021	2022	2023	2024f
Nominal GDP	$ bn	142	181	165	164
Real GDP	% y/y	1.1	7.8	-0.7	-0.2
Budget Balance (FY)	% of GDP	-10.2	11.5	-6.7	-6.3
Current Acc. Balance	% of GDP	26.4	34.5	26.5	17.6
Inflation (avg.)	% y/y	3.4	4.0	3.6	2.5
Crude Production (avg.)	mb/d	2.4	2.7	2.6	2.5
Oil Price (KEC)	$/bbl	70.5	101.2	84.3	82.0

Source: Official sources, NBK forecasts

Facts & Figures:

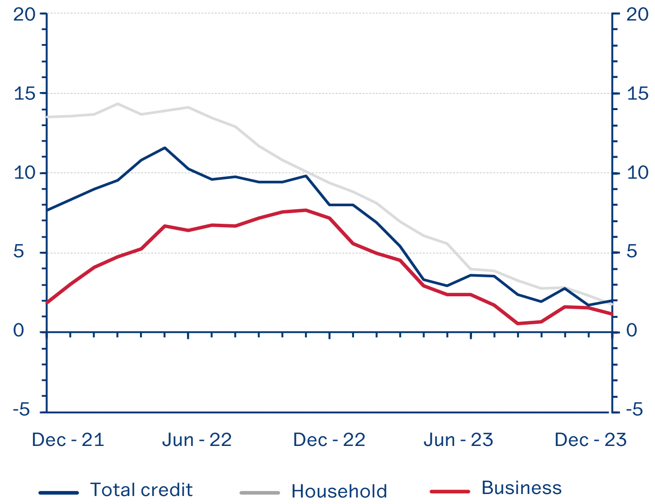
- **GDP:** GDP contracted by 3.7% y/y in Q3 2023 according to preliminary estimates published by the Kuwait Central Statistical Bureau . This was largely a reflection of oil sector output declines (-9.0% y/y), in-line with Kuwait's participation in OPEC+ production cuts. The non-oil sector performed better, with growth accelerating to 2.8% y/y. Total GDP growth is forecast at -0.7% for 2023 as a whole, at best.
- **Consumer spending:** Growth has slowed since 2021 to +8.3% y/y in 2023.
- **Real estate sales:** Activity declined 22% in 2023, with cumulative sales of KD2.8 billion.
- **Domestic credit growth:** Slowed in 2023, from 7.7% y/y at the start of the year to 1.7% by December, on the back of easing demand for both household (+1.5%) and business credit (+0.9%).
- **Consumer price inflation:** Trended lower by December's close to 3.4% y/y and a year-average of 3.6%.
- **The value of awarded projects:** Saw an almost three-fold increase on 2022's level to KD 2.5 billion. The transport, power & water and construction sectors accounted for the bulk of the awards.
- **Kuwaiti employment:** Grew by 2.9% y/y as of end-June 2023, significantly outpaced by expatriate employment growth of 14% y/y over the same period. The Kuwaiti employment rate ranged lower slightly to 94.2% from 94.8% at the June 2022 reading.

Credit and Debit Cards Transactions (local)



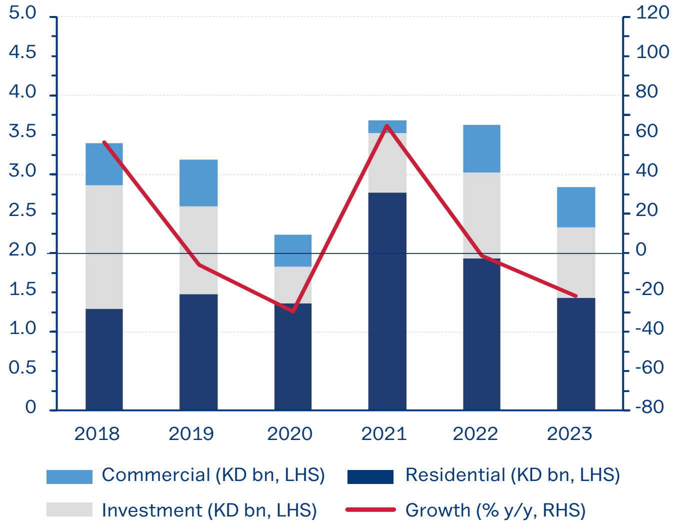
Source: Central Bank of Kuwait (CBK)

Private Credit Growth (% y/y)



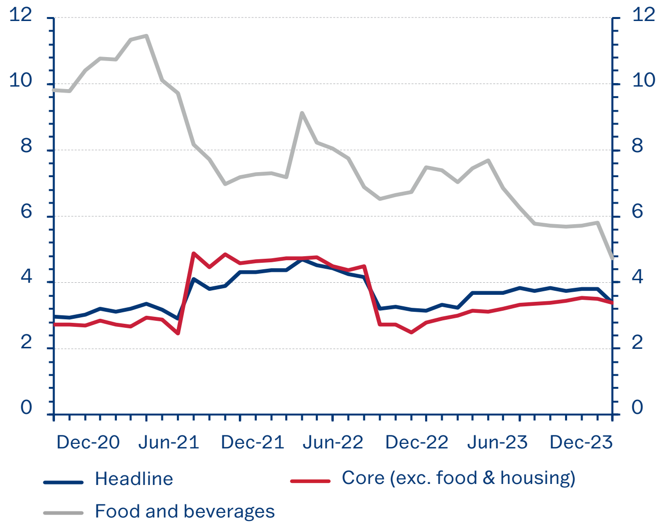
Source: Central Bank of Kuwait

Real Estate Sales



Source: Ministry of Justice

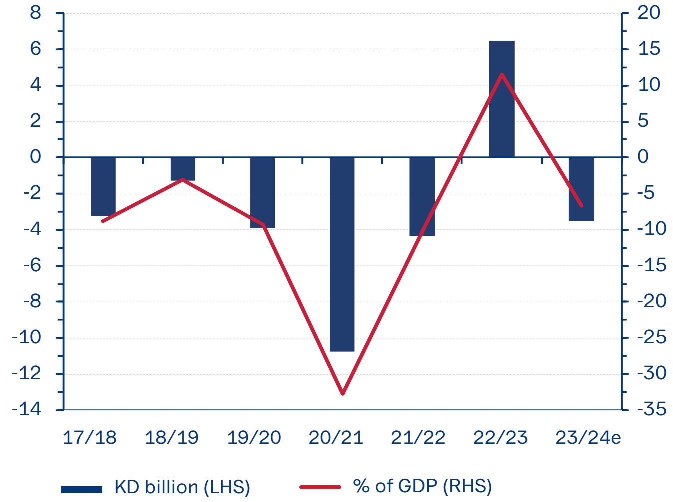
Consumer Price Inflation (% y/y)



Source: Central Statistical Bureau

Kuwait Foreign Investment and Government's 4-Year Action Plan
Kuwait has trailed its GCC peers in attracting foreign investments (FDI), despite having positive fundamentals including a strong banking and financial sector and a steady macroeconomy. Annual FDI inflows in 2022 were USD 758 million (0.6% of GDP), according to UNCTAD's World Investment Report 2023, with the annual average over the last 10 years at about USD 558 million. The stock of direct investments in Kuwait stood at USD 15 billion in H1 2023, compared to USD 27 billion in Qatar, USD 35 billion in Bahrain and USD 50 billion in Oman. Bureaucratic hurdles, restrictive policies in the large oil sector and policymaking uncertainty have been cited as challenges.

Fiscal Balance (fiscal year)



Source: Kuwait Ministry of Finance, NBK estimates

Improving the business landscape and attracting FDI are part of the government's 4-year action plan. The potential establishment of the "Ciyada" domestic investment vehicle could be significant in spurring new inflows. The plan also focuses on privatization to change the government's role from a major player in the market to supervision, unlocking more opportunities for the private sector. These reforms require the availability of funding for the private sector, which presents financing opportunities for banks. The pick-up in projects activity in 2023 and potentially in 2024 as well bode well for bank business and the broader economy.

Kuwait's Banking Sector
Kuwaiti banks continued to post solid results in 2023, with a majority recording double-digit growth in net profits in H1 2023. Banks' profitability indicators (Return on Equity, Return on Assets) mostly increased in H1 2023, a continuation of the trend seen since 2021. Asset quality remained generally good, with the cost of risk lower for most banks in 1H2023 than in the same period in 2022, even after falling sharply across the board in 2021 and 2022. Capital Adequacy continued to be solid, standing at 18.4% as of June 2023, well above the minimum requirement of 13%. However, domestic loan growth was weak in 2023, expanding by 1.7% in the year-through December against a backdrop of higher interest rates and following very strong growth in 2022.

Investments in Energy Sector
Investments are ongoing in the energy sector, with Kuwait Petroleum Corporation (KPC) pushing ahead with its sustainability plan to expand non-fossil fuel, renewable energy sources to a level that would satisfy 15% of the country's entire energy requirements by 2030. Moreover, KPC unveiled at its Strategic Directions 2040 and Energy Transition 2050 conference a roadmap to achieve carbon neutrality by 2050, in line with similar plans pursued by GCC neighbors. To that end, KPC will look to spend about USD 110 billion on top of the USD 300 billion already allocated for the oil sector to help drive upstream capacity gains in the 2040 strategy.

Kuwait's National Vision 2035
Under the auspices of the Kuwait Vision 2035 document, a four-year economic plan was published in mid-2023 and later updated that detailed initiatives to be implemented by 2027 to help guide policy. The plan is based on six pillars: public finance stability; economic sector development; job opportunities and capacity building; sustainable welfare and human capital development; productive government; and sustainable economic development enablers. The program's goals include: improving liquidity and expenditure management; developing the housing, tourism, transport, logistics, technology, financial services and renewable energy sectors—through strong PPP engagement; creation of a northern economic zone; raising the productivity of state employees while promoting private sector employment; creation of a better-educated and knowledge-based society; and the strengthening of governance and institutional capacities.

Our Business Model

We use our key strength...

A Leading Customer Base Franchise spanning across continents.

A Dynamic Appetite for Challenge beyond conventional boundaries.

Digital Leadership and Growth for a transformative journey.

A Commitment to Disciplined Compliance with proactive risk management.

A Committed and Value-Driven Workforce, the backbone of our business.

A Proactive Sustainability Focus for a better tomorrow.

At the core of our ethos lies a commitment to integrity, innovation, and the relentless pursuit of excellence, all underpinned by a profound dedication to entertaining a trusted relationship with our stakeholders.

Our business model is a testament to our unwavering commitment to maintaining trust while continually creating tangible and lasting value for all stakeholders involved.

Crafted to Sustain Trust and Create Value

To create value through...

Catering to the diverse needs of retail, corporate and High-Net-Worth individuals. Through a strategic commitment to digital transformation, we are redefining the banking experience, for our clients.

Extending our reach beyond borders, establishing a challenging footprint and cultivating a regional and international clientele within the dynamic agile banking industry.

Contributing to the landscape of global trade flows, playing a pivotal role in bridging capital and trade flows between MENA and the rest of the world.

Building a distinguished Private Banking and Asset Management franchise to serve a regional customer base with tailored financial solutions across geographies.

For our stakeholders...

Our Client Base: Delivering innovative financial products and personalized services.

Our People: Fostering a culture of innovation and transforming our workforce into highly valued assets.

Our Shareholders: Delivering consistent returns and ensuring long-term value creation through sustained growth strategies.

Our Regulators and Governments: Upholding responsible practices with a commitment to robust governance practices and full compliance with regulatory requirements

Our Communities: Enabling positive change within communities through initiatives that support social and sustainable economic development.

Strategy

Digital Transformation

ESG Transition

Defend and Grow Leadership Position in Kuwait

Corporate Banking

The Bank aims to (i) remain the primary banker for the leading local companies whilst continuing to be active in the mid-market sector;(ii) remain the bank of choice for foreign companies and continuing to serve at least 75% of those companies and (iii) maintain its current market share in trade finance (over 30%).

To achieve the above, NBK will expand its coverage and broaden the range of products and services offered.

Consumer Banking

NBK intends to maintain its focus on the profitable affluent and mass affluent segments while continuing to build a future-safe franchise by investing in youth segments (such as first jobbers and Shabab).

Through the above, the Bank aims to maintain its leadership position, maintain its focus on delivery of superior customer service experience and achieve the lowest cost of funds among Kuwaiti banks.

Build Regional Powerhouse in Wealth Management

NBK aims to continue to provide a unique proposition to high net worth clients by bringing its frontline and investment arm together as one team and complementing its superior customer service with an increasingly wider range of investment products.

Leveraging its strong trustworthy brand and geographic reach, the Bank aims to bridge capital flows between Kuwait and the rest of the world.

NBK aims to replicate its success in wealth management in Kuwait in other GCC markets and build a pan-regional franchise with regional origination and international asset allocation capabilities.

Geographical, Product and Service Diversification

Expand Regional Presence

The Bank's geographic diversification strategy is to leverage its fundamental strengths and capabilities, including its international reach and strong regional relationships, to build a regional platform and support growth in key markets.

NBK focuses on markets with long-term potential through a combination of high growth economies, sound demographic trends and opportunities aligned with the Bank's competitive advantages.

Establish an Islamic Franchise

The Bank's strategy, in relation to its Islamic subsidiary, is to differentiate it from other domestic Islamic banks through a clear focus on high net worth and affluent clients and large and mid-market corporate customers.

Digitization at the Core

NBK stands at the forefront of digital innovation, fostering a transformative banking experience that revolves around the genuine needs and aspirations of its customers. Rooted in a profound commitment to customer-centricity, NBK has reshaped the lives of its customers through a meticulously crafted suite of digital services and products.

The launch of the new NBK Mobile Banking Applicationlication exemplifies this dedication, offering a personalized and intuitive platform that resonates with the daily rhythms of customers. From a redesigned holistic dashboard to personalized greetings and enhanced financial control, every feature is a testament to NBK's understanding of what its customers desire. This customer-focused approach has not only garnered widespread acclaim but has also resulted in tangible benefits for users – reduced clicks for accessing services, increased mobile usage, and a satisfaction rate exceeding 90%.

Highlights

Recorded more than 50 million transactions through NBK's Mobile Banking Application. 19% YOY growth in mobile banking transactions in 2023.	As of end December 2023, total active customers executing their banking transactions digitally across all segments reached around 500k customers.	Over 90% satisfaction rate post-facelift for the New NBK Mobile Banking Application.	NBK's Mobile E-KYC service launched, allowing customers to update their personal information through their daily banking channel.
Awarded "Best Mobile Banking Application" in the Middle East and "Best Consumer Digital Bank in Kuwait" by Global Finance.	Group Digital Office named "Best Financial Innovation Lab in Kuwait 2023", for the third year in a row by Global Finance.	NBK Mobile Banking app positioned as the most dominant channel for daily banking needs.	NBK actively seeks collaboration with participants of the Central Bank of Kuwait's Wolooj Fintech sandbox, as well as the upcoming Open Banking initiative to foster new opportunities for unity between banks and Fintechs.

2023 Product Highlights

New Mobile Banking Application The new NBK Mobile Banking Application is an innovative value proposition for our customers. The app elevates NBK's digital offerings to new heights in our journey to empower customers through digitization.	**Payment Products** Expanding the payment functionalities of the New NBK Mobile Banking Application including the new Avios card, enrichment to NBK QuickPay, NBK Flexipay and a digitized prepaid card proposition.	**Digital Investment Engagement in the NBK Mobile Banking Application** Launched Digital Investment Engagement in the NBK Mobile App in collaboration with SmartWealth by NBK Capital to provide NBK mobile customers with integrated banking and investment services.	**Customer 360** C360 is a multi-phase project that provides a state-of-the-art enhanced Customer Relationship Management (CRM); delivering a holistic view of our relations with our corporate clients, further enhancing our relationship management.

Key Milestones and Achievements in 2023

In 2023, NBK made significant strides in its digital transformation journey with the successful launch of the New NBK Mobile Banking Application. This innovative app was designed with a mobile-first approach, prioritizing user experience and customer-centricity.

Main Highlights:

- A holistic dashboard providing a comprehensive view of all products
- Intuitive navigation and quick access buttons to perform transactions faster
- Enhanced card management for greater financial control
- A personalized experience with greetings and birthday messages
- New design system to achieve state-of-the art customer experience

The new Application transforms how customers engage with their daily banking needs, boasting a highly efficient and user-friendly interface that guarantees an enhanced and enriched experience.

Positive Customer Engagement:

- Upward trend in mobile usage
- Increased customer satisfaction rates
- Notable boost in new product sales and cross-selling

NBK Mobile Banking Application became the most significant channel for usage and transactions and the top-rated mobile banking app in Kuwait, reflecting the success of the Bank's digital strategy.

Digital Advancements:

As part of our commitment to digital advancements, we continually serve our customers by providing frequent updates to the mobile app; augmenting the digital experience for customers. This year, NBK has launched over 30 new features in tandem with the new application.

- NBK is continually promoting the convenience of customers through digitization, and it was achieved this year with the launch of a new E-KYC service allowing customers to update their information directly in the app, adding transfer receipts to the NBK app, as well as automating the investments of NBK funds
- Focused enhancement of cards and payments means, with the release of several features to enhance the customer experience, namely viewing card details, temporary blocking, and reporting lost or stolen cards; as well as flexible payment options through Flexipay
- When determining the critical next steps after the launch of the New NBK Mobile Banking Application, enhancements to QuickPay were a clear priority. Customers may now pay for NBK QuickPay links directly through the NBK Mobile Banking Application, debiting directly from their selected account. Additionally, customers may generate a NBK QuickPay using a QR code through the app as well
- Digital Products for customers are also evolving, and NBK has launched the Avios card, which allows customers to earn both British Airways and Qatar Airways miles. This card is available fully digitally without any need for a branch visit.
- NBK is always exploring innovative ways to boost the customer value proposition by engaging with local and global players in the Fintech space, to deliver new experiences for customers in the field of personal finance management, wearable technology and Artificial Intelligence based solutions
- A unified user experience across all digital channels with plans to apply a similar customer-centric approach to NBK Online Banking and ATM

A Journey through Design Thinking and Agile Methodologies

To enhance customer experience and streamline operations, NBK adopted a Design Thinking process, ensuring the identification of customer needs and pain points and securing the proper steps are taken to address them. This customer-centric approach was coupled with Agile methodologies driving purpose-driven User Experience design to ensure that digital platforms align with the Bank's values and a customer-centric approach in all aspects of the organization.

Driving Customer Engagement

NBK's mobile adoption experienced significant growth, with the introduction of the new NBK Mobile Banking Application contributing to increased penetration rates and active usage. Key customer segments witnessed a substantial surge in activation, establishing the app as the go-to for daily banking. The app now dominates daily banking with a high self-service transaction ratio.

A Trailblazing Journey in Talent Development and Innovation

NBK has taken comprehensive steps to enhance internal digital capabilities, recognizing the pivotal role of its workforce in the digital transformation journey.

- Internal digital capabilities were boosted through the establishment of mobile squads using Agile methodologies aligning platforms with customer demands, regulatory changes, and improved digital offerings
- The NBK Tech Academy reinforces digital talent, fostering expertise in STEM roles through a curated management training program. The cultivation of a digital community within the Bank promotes a vibrant digital force and drives engagement with content and events for ongoing innovation

Operational Review

Our journey has been marked by pioneering initiatives, making us a trailblazer in the country with numerous "firsts" to our credit and client loyalty reflecting the trust placed in our institution. As we delve into the intricacies of our operations, it is evident that the collective efforts of our talented workforce contribute significantly to our success, reinforcing NBK's position as a beacon of reliability and progress in the financial industry.

Commitment to Creating Value
At the core of our operations are key pillars that define our commitment to excellence.

- Unwavering adherence to regulatory frameworks, ensuring transparency and compliance in all facets of our endeavors.
- Customer centricity is embedded in our approach, prioritizing the satisfaction and needs of our clients.
- Premium placed on our people, fostering a supportive and inclusive environment that empowers our team.
- Sustainability considerations guide our decisions, reflecting our dedication to responsible business practices.
- Embracing innovation and technology, recognizing their transformative power to enhance efficiency and elevate the overall experience for our customers and stakeholders.

Consumer Banking Group
Customer behaviors are evolving, marking a growing appetite for digital channels and a remarkable surge in digital literacy and expectations. At NBK's Consumer Banking Group, we recognize this transformation and are proactively adapting to meet the changing needs of our clients.

In 2023, our efforts focused on:
- Upgrading NBK Mobile Banking Application with more than 30 enhancements on both UI/UX tailored to customer needs with personalization features.
- Anchoring our leadership as the first bank to launch Apple Pay in Kuwait.
- Launching the new NBK Cards Designs and eco-friendly prepaid card promoting transparency.
- Leveraging value proposition for Weyay: increase its market share in the youth segment to reach more than 30% and partnership with MasterCard to be its exclusive cards scheme provider.
- Repositioning of Jawhara account; attracting funds from non-NBK customers and enhancing Shabab segment offerings.
- Introducing cards for SMEs with corporate supporting needs
- Signing partnerships with third-parties to provide customers with first-time services, i.e introducing special offers for Kuwaiti Retirees with the Public Institution for Social Security.
- Expanding the strong value proposition for premium segment by partnering with top brands injecting the segment with lifestyle exclusivity.
- Upgrading our solution center systems with in-app chat allowing customers to chat directly from within the application.

Mobile Banking Highlights 2023:
- 13% rise in the number of registered users
- Usage has increased by 34%
- Financial transaction volume has grown by 43%

In 2024, a continued emphasis will be placed on customer-centric strategies, technological advancements, and pioneering initiatives that will further solidify NBK's position as a trusted financial partner, setting new benchmarks in Kuwait's banking industry.

NBK Wealth
In 2023, NBK Wealth concluded the transformation plan of consolidating NBK's private banking and asset management businesses under one leadership and identity. The transformation plan was focused on client-centricity, as the division currently provides SHNWI/UHNWI/HNWI and institutional accounts with a holistic and client-centric offering including all private banking products as well as investment solutions, leveraging on the decades-long trusted relationships with clients and aiming at meeting their ever-changing needs.

In 2023, our efforts focused on:
- **Advisory solutions:** Client-specific and tailor-made wealth, portfolio investment, real estate planning, and advisory services, including using holistic multi-asset strategies.
- **Product solutions:** Access to a unique platform covering a wide array of investment vehicles across liquid and illiquid solutions, including leasing and Islamic leasing products, regional and global mutual funds, fixed income and money market funds, and infrastructure funds.
- **Booking centers solutions:** Expanded booking centers with optional relationship management coverage model.
- **Banking services:** Differentiated propositions to HNWIs for core banking products such as loans, deposits, and credit cards.

In 2024, NBK Wealth will continue to leverage its collaboration with third parties to provide NBK Wealth' customers with a wider array of alternative investment solutions including multi-strategies, infrastructure funds, hedge funds, as well as private equity secondaries. Moreover, our efforts will be geared towards integrating ESG components into our offerings and selection process for clients with an ESG preference, reflecting our commitment to sustainable investment practices.

International Banking Group
The International Banking Group (IBG) maintained its proactive approach in managing the loan portfolio as well as its long-standing international strategy that requires the group to focus predominantly on selectively growing with Investment Grade counterparties and Government Related Entities.

In 2023, our efforts focused on:
Consolidating returns and leveraging existing strengths, leading to a net growth of over USD 2 billion in assets globally, particularly within NBK's current footprint while maintaining healthy cost-to-income ratio. A notable achievement was the emphasis on sustainable lending, becoming the leading contributor within the Group in anchoring sustainability in its global business.

The International Banking Group's cross-border transactions expanded as teams from different locations collaborated to serve NBK's clients, fostering a seamless NBK approach and promoting a relationship-driven model.

Two locations underwent transformation to become regional hubs in Europe and Asia, expanding NBK's presence and establishing the Bank as a trusted brand. In serving international retail clients, IBG has implemented country-specific strategies to expand consumer products and services within NBK's footprint. In Egypt and Bahrain, the focus was on improving transactional banking services, particularly in cards and accounts. NBK introduced new co-branded cards and interest-bearing current accounts in Egypt, along with expanding credit card availability across the platform. Across International Corporate and Commercial Real Estate activities, the emphasis in the current year was on enhancing synergies across the network to elevate the level of services provided to NBK customers.

In 2024, we will be gearing our actions towards:
- Growing NBK's footprint across NBK's key regional markets in Saudi Arabia and the UAE, with a continued focus on Government Related Entities and Top-Tier Corporates.
- Expanding strategically across the European Union, particularly in corporate lending, trade finance, Commercial Real Estate, and residential mortgages.
- Enhancing the Group's footprint in Asia through its regional hub in Singapore.
- Diversifying the Group's Commercial Real Estate portfolio.
- Integrating ESG into credit management processes.
- Undertaking digital and technology investments across the network.

Treasury
At the forefront of NBK's strategic initiatives, Group Treasury plays a pivotal role in orchestrating collaborative efforts across various business and control units. A standout accomplishment in 2023 was leading the pivotal project to transition USD assets and liabilities from LIBOR to alternative rates, such as SOFR. This transition encompassed the successful migration of all USD bilateral contracts and derivatives transactions, with ongoing collaboration with other banks for the remaining syndication contracts.

In 2023, our efforts focused on:
Actively supporting the implementation of a new Funds Transfer Pricing (FTP) policy and framework at NBKI, geared towards refining the pricing of interest rate and liquidity risks. This progressive policy aims to improve the pricing of interest rate and liquidity risks and enhance the management of the balance sheet by driving the proper behavior. In addition, managing interest rate risk was also a major 2023 focus in parallel to liquidity management, especially amid the substantial policy tightening since 2022 and the recent rise in geopolitical tensions in the region.

In 2024, strategic priorities will focus on leveraging the recently acquired technology solutions to broaden product offerings and services to a wide range of clients in Kuwait and international locations by expanding the list of hedging solutions and investment products offered to clients with diversification efforts on the liquidity and funding front. Additionally, efforts will be invested in further leveraging the recent technological acquisitions and expanding the benefits of these state-of-the-art solutions to more international locations, and rolling out the new FTP framework to additional overseas locations.

Corporate Banking Group
The Corporate Banking Group pursued its strategic objectives with a primary focus on defending and growing NBK's strong market position as the Bank of choice for corporates in Kuwait. It capitalized on new business opportunities from existing clientele and attracted new clients through exceptional customer service and a robust capital base.

In 2023, our efforts focused on:
- Introducing a pioneering suite of commercial cards, first-of-its-kind offering in Kuwait, empowering clients with enhanced control over their business expenditures.
- Rolling out new services designed to simplify the digital and physical submission of documentation for corporate clients, resulting in a significant reduction in processing times.
- Fostering the growth of our mid-sized corporate clients.
- Investing in digitizing service delivery channels, focusing on enhancing existing IT platforms and actively promoting client adoption and utilization of digital solutions.
- Increasing uptake of corporate online banking services (WOLC) as a result of simplifying customer journeys, robust security measures, and improved online user experience.
- Preserving the high quality of asset portfolio with vigilant management of credit risk.
- Monitoring and assessing the performance and effectiveness of corporate clients' interactions, enabling us to make continuous enhancements to our offerings.
- Integrating ESG Scoring into corporate clients' credit assessments and creditworthiness evaluations, reinforcing the importance of governance in business practices.

In 2024, core objectives and strategic priorities remain steadfast: as the Corporate Banking Group is committed to maintain a strong market position by proactively identifying and seizing opportunities for growth and continuing to support clients as they navigate this evolving economic landscape.

Group CFO's Review

As we reflect on the financial landscape of the year, we are happy to report that 2023 was another remarkable year, marked in many ways by elevated levels of global uncertainty and geo-political challenges. However, NBK Group has navigated the year with a strategic vision guided by our core principles and backed by our unwavering dedication to sound financial practices, prudent risk management, and innovative strategies that enabled us to withstand the turbulence and emerge stronger and more resilient with a steadfast commitment to financial excellence both locally and through our international network.

KD 560.6
million Net Profit in 2023

17.3%
Capital Adequacy Ratio as of 31 December 2023

Robust Strategy
In navigating the economic challenges and market dynamics during the year, NBK Group has upheld its resilient business model, leveraging a diversification strategy, healthy balance sheet, conservative risk management practices, and strong capitalization. Our focus on enhancing digital products and services through platforms like Weyay has fortified our prospects for future growth. Additionally, we have capitalized on opportunities in key growth markets, particularly in the GCC, with a special emphasis on commercial banking and wealth management initiatives.

2023 Business Performance
The Group recorded a net profit of KD 560.6 million (USD 1.8 billion) in 2023, a 10.1% year-on-year increase from KD 509.1 million (USD 1.7 billion) in 2022, driven by a solid operational performance. This strong operating performance was driven by higher net interest income, increased fee income, and growth in business volumes, particularly in loans and investment securities, reflecting the strength of the Group's portfolio, which provides for revenue diversification and cost management strategies.

Likewise, our net operating income mix continues to show healthy trends and is driven by core banking activities. Net operating income stood at KD 1.2 billion, up by 15.6% from KD 1.0 billion in 2022; supported by a higher net interest income as well as stable non-interest income. International Banking contributed 23.7% of Group's net operating income, while Islamic banking operations and NBK Wealth contributed 19.2% and 9.6% respectively.

Net interest income at KD 905.1 million was boosted by higher interest rates and improved margins while benefitting from higher volumes of loans and investment securities across geographies. Net interest income for the year accounted for 77.6% of the net operating income and grew by 19.8% compared to 2022. On the other hand, non-interest income at KD 261.6 million represented 22.4% of net operating income, benefitting from strong fees and commission income and higher net investment income. The Group's fee income reflected growth in underlying transaction volumes across business lines and operating locations.

The Group's increased activity levels across the network and continued investments in key businesses, digital technologies, processes and human capital, resulted in total operating expenses of KD 426.5 million, reflecting a year-on-year growth of 10.4%. The Group's cost to income ratio stood lower at 36.6% compared to 38.2% in 2022, reflecting our commitment to operational efficiency. Operating surplus thus grew by 18.7% year-on-year to reach KD 740.3 million.

The Group remains committed to its conservative approach in managing credit exposures and historically has reacted proactively by setting aside precautionary general provisions. In 2023, total provisions and impairments increased year on year to KD 103.1 million from KD 45.4 million in 2022 which had benefitted from significant amount of provision recoveries.

Healthy Balance Sheet
As of the end of December 2023, total assets grew by 3.7% year-on-year to reach KD 37.7 billion, whereas loans and advances stood at KD 22.3 billion, up by 6.1% year-on-year on increased volumes achieved in both conventional and Islamic customer segments, in Kuwait and overseas. Investment securities reflected a strong growth during the year to reach KD 6.9 billion.

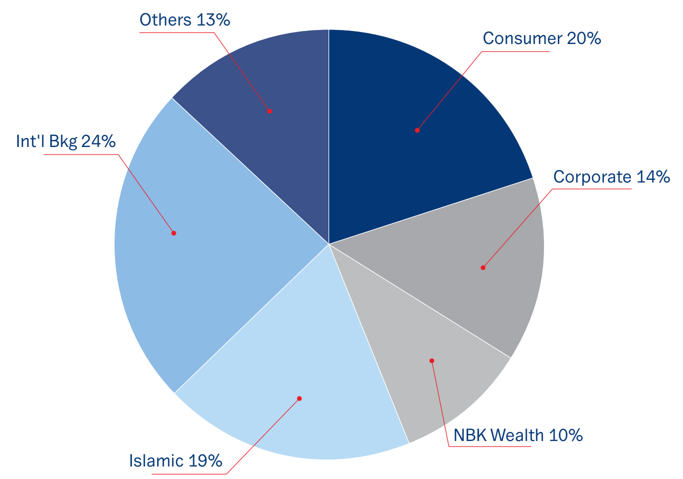
Customer deposits surged by 8.8% to reach KD 21.9 billion, with the overall funding mix remaining stable and favorable to the Group. The growth in our business volumes across different segments and geographies reflect the strength of NBK's brand and reputation. In the meantime, we continue to place a strong emphasis on the quality of our assets and have been able to consistently maintain healthy asset quality metrics. By the end of 2023, our NPL to gross loans ratio reached 1.38%, and our NPL coverage ratio was 271%, affirming NBK's success with its proactive and conservative risk management practices over the years.

Financial Operations and Governance
NBK Group remained committed to compliance with regulatory requirements and industry standards, ensuring transparency and accountability in our financial operations. We fostered transparency through regular investor communications, discussions with rating agencies, and the publication of important financial reports and sustainability disclosures.

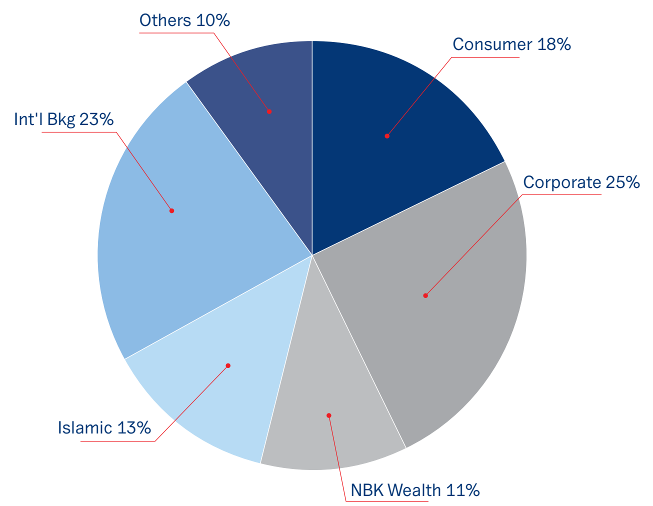
Future Outlook
As we look ahead with optimism and determination, NBK Group remains focused on delivering strong profitability and sustainable growth. Despite potential challenges in the financial landscape, including geopolitical tensions and macroeconomic uncertainties, we are cautiously optimistic of an overall stable operating environment in 2024. We stand ready to embrace the challenges and opportunities that lie ahead. With a focus on continued innovation and digitization, we are poised to lead in an ever-changing financial environment. With our history of resilience and adaptability, we are well-positioned to overcome any challenges and capitalize on opportunities for continued success as we remain committed to upholding our legacy of trust and leadership in providing secure financial services for a sustainable future.

Key ratios (%)	2023	2022	2021
Return on Average Assets	1.53	1.48	1.15
Return on Average Equity	15.0	14.3	10.2
Net Interest Margin	2.59	2.30	2.21
Non-interest income as % of total income	22.4	25.1	25.6
Cost to Income	36.6	38.2	39.2
NPL Ratio	1.38	1.42	1.04
Loan Loss Coverage Ratio	271	267	300
Common Equity Tier 1 Capital Adequacy Ratio	13.0	12.9	13.3
Tier 1 Ratio	15.0	15.0	15.7
Capital Adequacy Ratio	17.3	17.4	18.1

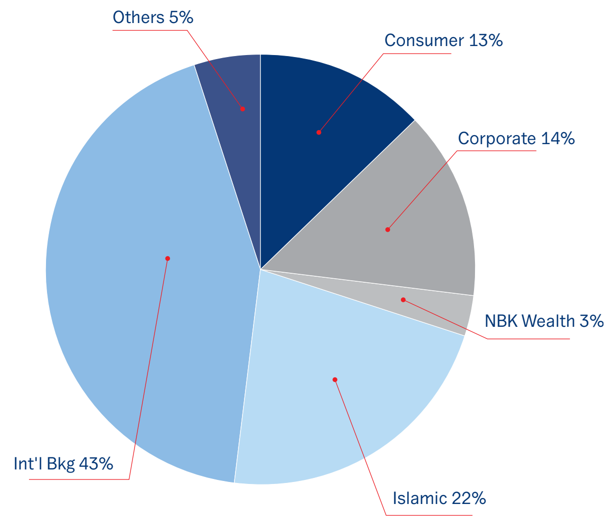
2023 Op. Income by Business Line (%)



2023 Net Profit by Business Line (%)



2023 Total Assets by Business Line (%)



Key Performance Indicators

The delivery of NBK's strategy is measured against Key Performance Indicators (KPIs), which enable management and the Board to monitor progress towards strategic goals.

The KPIs are categorized as 'financial' and 'non-financial'. The table summarizes our overarching KPIs and provides an overview of performance against them in 2023.

	Dimension	KPIs	Objectives	Performance 2023
Financial	Profitability	Return on Assets	• Gradually improve to 1.5% by 2025	
		Return on Equity	• Gradually improve to low/mid teens by 2025	
		Cost-to-Income Ratio	• Maintain and closely manage below 40%	
	Growth	Core Asset Growth	• Achieve mid/high single digit growth rate	
	Resilience	% of FX, fees and commissions to total income	• Maintain ~ 22%	
		% of Operating Surplus from international business	• Gradually improve to ~30% by 2025 (excluding any potential inorganic uplift)	
Non-financial*	Customer Perception	Brand Awareness	• Maintain NBK's image as the leading bank in Kuwait	
		Brand Power among youth	• Maintain NBK's Brand Power in Kuwait and among Kuwaiti Youth	
	Market Perception	Ratings assigned by credit agencies	• Maintain NBK's high LT credit rating	
		Ratings and scores assigned by external ESG raters	• Gradually improve ESG ratings and scores	
	Maintaining Leadership in Kuwait	Market share in salaried Kuwaitis of NBK Kuwait	• Defend market share	
		Market share in corporate assets of NBK Kuwait	• Defend market share	
	Employee Perception	Employee Engagement Survey	• Maintain NBK's status as a preferred employer in Kuwait	

Note: *The objectives for the Bank's KPIs assume the execution of the Government of Kuwait's development plans towards the long-term goals defined in New Kuwait 2035. They also depend on gradual improvements in the political and economic stability of the MENA region over time, provisions returning to pre-financial crisis levels and no major acquisitions.*

*Non financial Indicators progress is based on third Party assessments and Data.

Risk Management

Risk management serves as a solid foundation for the Group's resilience while seamlessly pairing with our dedication to creating future value for the Group's stakeholders. Through a balanced approach, best-in-class practices, and strict compliance with local, regional, and international regulatory frameworks, the Group Risk Management (GRM) ensures for identifying and assessing key risks, measuring the levels of Bank's risk exposure, monitoring exposure levels in light of the risk appetite on regular basis and following up and evaluating decisions relating to credit, market, operational, IT and emerging risks.

Risk Governance

The Board and the BRCC provide overall risk management direction and oversight. NBK has meticulously established a robust Governance structure across the entire Group, acknowledging the nuanced distinctions among standalone subsidiaries. To fortify risk management and internal controls, the Group has embraced the industry-standard three-line-of-defense model, ensuring a comprehensive approach to risk mitigation and regulatory compliance through key activities across the entire organization.

First Line of Defense: Business Owners

Identifying and capturing key risk indicators, spanning credit, market, IT & Operational, and emerging risks like ESG and Climate risks. The Group Risk Management (GRM) and the first line of defense collaboratively set policies, including risk appetites, defining individual and portfolio-level risk thresholds.

Second Line of Defense: The Group Risk Management (GRM)

Setting up Risk Appetites (RA) and risk adjusted profitability measures for the business at transaction level to control the quality of the portfolio and following up and evaluating decisions relating to new and existing deals, impairments & provisioning and other relevant credit, market, operational, IT and other emerging risks (i.e. ESG and Climate risk) of the Group.

Third Line of Defense: Internal Audit

Internal Audit is the third line of defense, is independent of the first line, second line and enterprise support functions of the Group. The Internal Audit provides independent, objective, reliable, and timely assurance to the Board, its Audit Committee, Group senior management and regulators over the effectiveness of governance, risk management and controls that mitigate current and evolving risks and enhance the control within the Group.

Key Activities 2023

Activity 1:

Reviewing market rates changes on frequent measures particularly on Interest Rate ("IR") shocks across the balance sheet items in order to translate results into measurable actions. This approach helps in taking tangible and measurable actions and aligning with effective risk management and strategic decision-making, allowing the Group to navigate and respond to changes and fluctuations in interest rate environments more adeptly.

Activity 2:

Performing periodic assessment of customer vulnerability towards debt services ability and significant increase in credit risk (SIC). It is a proactive and periodic evaluation of customers to rate/evaluate their financial position and identify any signs of upside credit risk.

Activity 3:

Factoring macro-economic indicators and assessing their significance against cost of risk estimations including IFRS9 ECL. By incorporating such, the Group aims at enhancing the accuracy of its provisioning policy towards expected credit losses and its alignment with regulatory requirements in addition to accounting standards.

Activity 4:

Proactively managing the liquidity position of the Bank to ensure its compliance with regulatory limits and in parallel with the Bank's risk and growth appetite.

Credit Risk

Maintaining stability and capital conservation within a very volatile market.

Risk Mitigation:

- Performing periodic assessment of customer vulnerability towards debt services ability and significant increase in credit risk (SIC).
- Monitoring of marginal client and setting additional requirements (credit strengthening criteria's such as guarantees and collateralizations) for any limit increase within marginal clients or identified trouble sectors
- Continuously scrutinizing the credit rating process with various levels of maker and checker processes.

Risk Framework:

Adopting a comprehensive and resilient approach to assessing and mitigating credit risks throughout the lending process. Using an internal rating grade to maintain consistency and homogeneity of the portfolio.

Outlook:

While the business banking landscape remains challenged by economic, climate and geo-political risks, GRM will focus on building a strategy that supports the growth aspiration of the Group while maintaining a desired risk reward profile.

Trend:

Towards the end of 2023, the global economy was hit by a number of major incidents:

- While most economic indicators are improving, and the major Central Banks' monetary policy tightening is approaching to an end in 2024, recession fears in advanced economies are downgraded. However, the escalation of geopolitics and supply chain disruptions remain a core concern that may impact overall growth and credit portfolio.
- While the Bank's business will remain intact in emerging markets including Egypt and the Group is continuously monitoring emerging market environments and country specific ratings. Time to time, the Group controls the credit quality and tighten the foreign currencies (Fx) limits in emerging markets.
- The JN.1variant with concerning properties likely to impact the epidemiological situation; if the trend continues, this may impact the overall global market and credit shocks to specific sectors.

Risk Ownership Accountability: GRM, Investment functions, credit functions, lending functions.
Link to Strategy Pillar: Improve profitability
Link to KPI: Financial KPIs

Market Risk

Sensitivity of balance sheet against interest rates and the financial assets price volatilities

Risk Mitigation:

- Taking frequent measures on Interest Rate ("IR") shocks across the balance sheet accounts and translating results into measurable actions.
- Identifying market risks inherent in financial claims and loans, FX exposure, trading and investment activities.
- Adopting a conservative risk approach.
- Hedging positions to contaminate market risk; particularly, Interest Rate risk.

Risk Framework:

Adopting a resilient approach consisting of sound governance, sharp identification and quantification, constant monitoring, as well as timely reporting.

Outlook:

The anticipated interest rate and price volatilities for 2024 remaining on the high, NBK Group will adopt a conservative approach away from any speculative position. It will maintain stability, capital conservation while applying a conservative price risk across its traded and non-traded business.

Trend:

- 2023 witnessed a continuation of policy tightening by major central banks including the Central Bank of Kuwait. However, it is strongly believed that interest rates have reached a peak and are expected to normalize in 2024.
- Market expectation of the speed of rate cuts, especially in the US, is volatile and will depend on economic indicators.
- Fixed Income instruments are hedged, thus, interest rate movements have limited impact on the Group profitability and equity. The Group would then monitor the interest outlook and manage the balance sheet to benefit from lower rates, while maintaining a comfortable liquidity position.
- Global interest rates movements coupled with the presidential election in the US could increase volatility in FX market.

Risk Ownership Accountability: GRM, Investment functions, credit functions, lending functions.
Link to Strategy Pillar: Improve profitability
Link to KPI: Financial KPIs

Operational and Technology Risk

The emerging operational risk, cybersecurity risks, and other Technology-related risks.

Risk Mitigation:

- Implementing an Integrated Risk Management system that facilitates the maintenance of a comprehensive risk register, an approval framework to deal with residual risk treatment plans, reporting of risk indicators and operational incidents, and maintenance of business continuity impact assessments and plans.
- Reviewing in full the Group's Operational and Technology Risk policy reflecting the emerging impact of fraud risk, cybersecurity, the Bank's digitalization strategy, and threats from geo-political tensions.
- Continuously enhancing risk posture through the introduction of additional controls to layer up the defense against potential fraud and cyber threats, in addition to performing proactive risk assessments to identify potential residual risks and remediation of issues on a timely basis.

Risk Framework:

Adopting an industry standard risk framework with multiple layers of defense for prevention, detection, response, and recovery including policies and procedures, awareness and training for staff and customers, and the implementation of a continuous process for cybersecurity posture validation, including regular phishing simulation for assessing staff cyber security awareness.

Outlook:

The ongoing digitalization of services in the Financial Sector and the launch of new digital services have witnessed a change in risk profile. While Cybersecurity risks are the most common risks, there has been a noticeable increase in other risks, namely Third-Party Risks and Social Engineering attacks on the banking sector; while NBK's risk management program is continuously enhanced to address the emerging risks in the environment.

Trend:

- Cyber Security risks continue to evolve and be an important risk factor. The Bank has been continuously improving its cyber security risk measures.
- To address the risks, NBK has rolled out comprehensive awareness campaigns and training programs targeting its customers and employees while enhancing its technology controls to address these risks for the customers and ensure the related losses continue to be negligible.
- Post Covid 19, third party risks have been a critical factor across the globe and all sectors, the recent geopolitical conflicts have further elevated the risk of third-party risks. NBK has a established robust third-party risk management program to ensure that supplier disruptions do not impact continuity of services.

Risk Ownership Accountability: GRM, Operational & Technology Risk Management (ORM), Information Security, Operations, Digital functions and Business.
Link to Strategy Pillar: Defend the Leadership at the Core
Link to KPI: Financial KPIs

Group Human Resources

At NBK, we recognize that our success is intricately tied to the growth and well-being of our people and we take great pride in highlighting our commitment to nurturing and empowering our invaluable human capital.

In 2023, our efforts focused on

Employee Learning and Development Programs
At the heart of our commitment to workforce development, we have meticulously designed and implemented targeted training initiatives, workshops, and educational programs aimed at elevating the skills and competencies of our employees. Central to this effort is our strategic training needs analysis process, which takes a proactive approach in identifying future shifts in our business strategy. By focusing on the reskilling and upskilling of our workforce, we ensure that our employees are well-equipped to navigate the evolving landscape of our industry.

Professional Growth Opportunities
In our ongoing commitment to the growth and success of our valued workforce, we have established a comprehensive framework that prioritizes career advancement, mentorship, and diverse opportunities for professional development within our organization. This multifaceted approach is designed to empower employees to chart their career paths, fostering an environment where they can thrive and contribute meaningfully. Various leadership development programs were implemented: RISE, a women's development program, High Fliers program designed for young talents, the Collective Executive Development program, a unique program targeting NBK Executives, the Middle Management Program, targeting newly recruited and promoted middle managers covering the essentials of management, and the first Tech Academy focused on top talent with technology skills.

Talent Acquisition
Talent Acquisition at NBK has strategically embedded sustainable practices within its recruitment processes.

We have embraced virtual interviews to significantly reduce travel and car usage among our candidates, aligning with our environmental sustainability goals. Moreover, our utilization of digital platforms for recruitment activities not only minimizes our carbon footprint but also streamlines the hiring process for efficiency and effectiveness.

In our quest to enhance social objectives, we actively engage with the community through career fairs and collaborations, focusing on building robust talent pipelines, offering internships and support programs for university students and candidates with disabilities. This approach not only facilitates their integration into corporate life but also underscores our commitment to inclusion and diversity.

To ensure ethical hiring practices, we adhere to strict governance frameworks, including fair labor standards and the provision of ability and work psychometric tests to all candidates, guaranteeing a transparent and unbiased recruitment process. Our policies are rigorously designed to combat discrimination and promote a culture of equality and fairness across all hiring activities.

Furthermore, to continuously improve the recruitment experience, we launched initiatives aimed at enriching both the employee and hiring manager's journey. These efforts are focused on the ongoing development of our current application, hiring, and onboarding processes, ensuring they remain sustainable and inclusive.

Through these comprehensive strategies and initiatives, we have managed to create a sustainable employee experience that not only meets our current needs but also sets a solid foundation for future growth and development in alignment with our ESG commitments.

Diversity and Inclusion Initiatives
The Bank actively promotes gender diversity and inclusion by offering equal opportunities for career advancement and professional growth to all employees, regardless of gender. To support women in their careers, NBK provides mentorship programs, leadership training, and networking opportunities. Through these initiatives, NBK aims to create a supportive and inclusive workplace where women can thrive and reach their full potential.

Employee Wellbeing Programs
To ensure employee wellbeing, NBK offers comprehensive wellness programs, including health check-ups, fitness initiatives, and stress management workshops. A healthy work-life balance is promoted by providing flexible working hours and encouraging employees to utilize vacation and personal time off. By prioritizing employee well-being, NBK demonstrates its commitment to the holistic development and happiness of its workforce.

Technology and Innovation Training
As an HR function responsible for the Group workforce, we are at the forefront of embracing technology as a catalyst for organizational success; we have hence undertaken a strategic initiative to ensure our workforce is not only technologically adept but also at the cutting edge of innovation working towards a successful digital future. This involves the implementation of enhanced training programs that specifically target digitalization across various fields. Moreover, our commitment extends to the development of an online learning platform, accessible internationally, which serves to standardize the learning experience and foster innovation through continuous learning.

NBK Tech Academy, a groundbreaking initiative that evolved from the success of our NBK Academy offers specialized programs addressing the demand for specialized skills including Python, data visualization, open banking, digital partnerships, codifications, programming, and more. By realigning our focus to embrace these essential technological competencies, we are not only preparing our workforce for the challenges of the digital era but also positioning NBK as a leader in technological innovation within the banking industry.

Employee Engagement and Communication
Within our strategies employed to foster open communication, collaboration, and a positive work culture among employees. NBK conducted its third 'Your Voice Matters' survey for the employees to have a chance at expressing what it's like to work at NBK. This year, our international colleagues joined us for the second time and our colleagues from NBK Wealth for the first time to give us a full view of 'Your Voice Matters' as a global bank. We partnered with the same third party organization, Willis Towers Watson, to help design, implement and analyze the survey to ensure utmost confidentiality. We achieved an impressive response rate of 86%, significantly higher than the global average response rate of 65 – 75% and on par with the global high performance response rate of 85%. We achieved a Group-Wide Sustainable Engagement score of 84%, 1% higher than 2021 and 7% above the Financial Services industry benchmark, with our main strengths being Learning & Development, Image and Reputation, and Employee Well-Being.

In 2024,
We are strategically focused on cultivating a robust "Learning Culture" across the organization, leveraging automation and digital learning to enrich our EVP. Recognizing the ever-evolving landscape of talent acquisition and retention, we are committed to addressing these challenges with confidence. Our approach includes refining onboarding processes, ensuring a seamless integration for new talents into our dynamic environment.

Simultaneously, our emphasis on leadership development endeavors to nurture and empower our existing workforce, providing them with the tools and knowledge needed to thrive in a constantly changing business landscape.

By fostering a culture that values continuous learning and development, we aim not only to attract key talents but also to retain and empower our existing team, thereby fortifying NBK's position as an employer of choice in the industry.

Our Employee Value Proposition (EVP)
The EVP is the experience offered by NBK to its employees in return for their skills, experience, and commitment to the Bank. It is what NBK provides to attract, engage, and retain the right talent.

Our people are at the heart of our organization and will determine NBK's success. This is why it is crucial to have a clear view of the type of organizational culture and kind of people the Bank needs. To attract, engage, and retain the right talent, NBK recognizes the need to present an authentic and differentiated EVP and develop a clear employer identity.

The EVP preserves what is valued by NBK Employees and reflects a forward-looking vision of NBK's Employee Experience, which is in line with the changing realities and the evolution and future growth of our organization.

NBK's vision, mission, and values coupled with the Bank's strategy and leadership commitment form the grounds for building the foundations of an agile EVP. Our employees' voices are placed at the center of developing our EVP to ensure their essential needs, expectations, and aspirations are captured in a way that aligns with our mission and helps us attract, retain, and engage the right people. Summarized into three pillars:

1. **"Our Success Story"**, You are part of an incredibly powerful brand and legacy. Together, we continue our journey of success.
2. **"Professional Excellence"**, You work with outstanding professionals, who uphold high standards and encourage you to achieve ambitious goals.
3. **"Accelerated Learning"**, You continuously learn in a culture that drives personal growth and truly values long-term careers.

The EVP pillars are grounded by the Bank's employee experience. They are considered the most important aspects of working at NBK as experienced by our employees by portraying the current state and desired future. Addressing the improvements required to fully deliver on every aspect of all EVP pillars, NBK has defined a two-year action plan based on prioritizing the areas where it has the most potential and is able to achieve the greatest impact. NBK is committed to focus on these areas that matter most to our employees to further improve our employee experience in line with global standards and leading industry practices.

Number of Global Employees: 8,049
Gender Repartition: Male (56%); Female (44%);
28.8% Females in managerial positions

Nationalities Employed: 39
Nationalization Rate:76.7%

Science, Technology, Engineering, and Math (STEM) employees: 263 with 27.8% of women in STEM positions.

Training Hours Given: 147,701 (locally)
36,764 (internationally)

ESG

We Aim for Better, Today, Tomorrow and Beyond
At NBK, we have a duty to embrace sustainable practices and drive positive environmental, social, and governance (ESG) outcomes. In recognizing the profound impact businesses have on the world, we are committed to integrating responsible and ethical considerations into our operations. Through transparent reporting and accountability, we aim to enhance our stakeholders' trust and contribute to the long-term well-being of both society and the environment.

NBK's Strategic Roadmap for Sustainable Impact
The initial approval and endorsement of the ESG Strategy by Management occurred in late 2022, officially setting sail into the promising journey of 2023. Our ESG Strategy aligns with NBK's overarching goal of supporting customers, contributing to economic development, and positively impacting the communities in which we operate. Each pillar has a distinct ambition and mission, contributing to the Bank's broader ESG objectives. A 3-year roadmap was developed, outlining key targets and commitments in areas with the greatest potential.

Our ESG Strategy prioritizes four interrelated key pillars:

Pillar 1: Governance for Resilience: Our commitment to transparency and accountability.

Pillar 2: Responsible Banking: Our dedication to conducting business sustainably.

Pillar 3: Capitalizing on Our Capabilities: Our commitment to developing an agile organizational architecture.

Pillar 4: Investing in Our Communities: Our pledge to achieving positive and measurable impact.

NBK Group ESG Strategy Framework

External Engagement and Recognition

ESG Ratings

NBK's rating at 'BBB' per the MSCI audit

Constituent of the FTSE4Good Index Series

"C" score for 2023 for both the Climate Change and Forests Categories

Listed on Refinitiv AFE Low Carbon Select Index in the Middle East and North Africa (MENA)

NBK is at medium risk (27.4) of experiencing material financial impacts from ESG factors

NBK obtained LEED v2009 for New Construction Gold-certified status from U.S. Green Building Council (USGBC)

National and Global Frameworks

Boursa Kuwait ESG Reporting Guidelines

New Kuwait Vision 2035

Global Reporting Initiative (GRI) Standards

UN Sustainable Development Goals (UN SDGs)

GHG Protocol

UN Global Compact (UNGC)

Sustainability Accounting Standards Board (SASB)

Pillar 1: Governance for Resilience

Our strong governance framework is built on accountability, trust and our values and is fundamental to our long-term organizational success. We have a robust set of policies, internal controls, and management processes to ensure our business operates responsibly and ethically.

In 2023, we

- Received Board approval to the Group ESG Strategy, establishing formal mandate for implementation across the Group
- Formally integrated ESG-related metrics into the Board of Directors' and Executive Management responsibilities, charters, oversight, and affairs
- Finalized and approved ESG Governance Structure and Framework that assigns ESG responsibility across members of the Executive Management
- Established management-level Sustainability & Climate Change Committee headed by the Vice Chairman & GCEO and with direct oversight from the Board of Directors
- Established five Sustainability Sub-Committees, assigning members of the Executive Management with ESG roles within their relevant areas
- Joined the UNGC as part of the Bank's efforts to enhance its international alignment and stakeholder engagement
- Initiated a pre-assessment to align with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). To that end, provided capacity building workshops for key stakeholders across the Bank responsible for the implementation of TCFD

Climate Risk Management
NBK is committed to developing economic, environmental, and social risk resilience across the Group while setting an effective and robust ESG governance structure in Kuwait and beyond.

NBK Kuwait	NBK International Subsidiaries
• Integrated ESG risks into the Board's and Executive Management responsibilities and oversight • Empowered the role of Board Risk and Compliance Committee in managing climate-related risks and opportunities • Established a management-level ESG Governance and Risk Committee, chaired by Deputy Group CEO • Accounted for climate change risks in the Pillar II Assessment presented in the ICAAP regulatory report • Institutionalized alignment with the recommendations of Taskforce on Climate-related Financial Disclosures (TCFD). In the process of developing a bank-wide Environmental & Social Risk Management (ESRM) Framework • Introduced ESG scoring into corporate clients' credit assessments and creditworthiness evaluations	**NBK - International London** • In compliance with the Bank of England's Supervisory Statement (SS3/19) for managing financial risks from climate change, NBK-I established appropriate policies and processes to manage climate-change risks **NBK Singapore** • In response to the regulatory guidelines issued by Monetary Authority of Singapore (MAS) on the "effective governance, robust risk management, and meaningful disclosure of environmentally-related risks", NBK Singapore developed an Environmental Risk Management Framework **NBK - Egypt** In line with Central Bank of Egypt (CBE) Guiding Principles for Sustainable Finance issued in 2022: • Incorporated sustainable financing principles within the Bank's credit and investment policies • Effective August 2023, engaged with an accredited environmental expert by Egypt's Ministry of Environment to assess the environmental risks of large corporate projects

Pillar 2: Responsible Banking

Our unwavering commitment to fostering economic, social, and environmental progress is rooted in our business ethos. We conduct our business responsibly as a strategic imperative for sustainable development and actively engage with clients to encourage the adoption of sustainable practices.

Transition to Low Carbon Economy

Our commitment unfolds in several key principles:

- **Responsible Procurement:** Committed to fully integrate ESG across our supply chain
- **Decarbonization**: Committed to developing formal systems to assess and manage ESG-related risks and opportunities in financing activities and operations
- **Portfolio Alignment:** Committed to USD 10 billion of Sustainable Assets by 2030. As of 31 December 2023, the Bank has around USD 3.5 billion Sustainable Assets
- **Sustainable Finance:** Committed to developing innovative sustainable finance value propositions for our clients and to strategically support their transition plans
- **Net Zero:** Committed to achieve Carbon Neutrality by 2060 and established interim targets to reduce gross operational emissions by 25% by 2025

NBK Sustainable Financing Framework Key Facts

- Launched in 2022
- Developed in line with the International Capital Markets Association (ICMA) principles
- Second Party Opinion (SPO) received from Standard & Poor's, confirming its alignment with the ICMA principles
- **Objective**: Designed to support and further NBK's ambition to integrate critical ESG issues into its business, culture, and operations, thereby advancing the transition to a sustainable and low carbon economy and contributing to achieving Kuwait's sustainable development agenda under the New Kuwait Vision 2035
- **Approach**: The Sustainable Financing Framework defines the criteria for NBK to develop both Green Financing Instruments for projects in renewable energy, green building, and the like, and Social Financing Instruments for projects in areas such as healthcare, education, affordable housing, and employment generation

In 2023, we

- Aligned GHG emissions with the GHG Protocol Global Framework
- Approved the installation of solar panels as a renewable source of energy in 24 of our local branches by 2025
- Installed Building Energy Management System (BEMS) in 22 of NBK's local branches to monitor, control, and optimize the Bank's energy and water consumption
- In 2022, reduced both total electricity consumption and electricity intensity by 11%, saving more than 6.4 million kWh
- In 2022, reduced both total water consumption and water intensity by 9%, saving more than 3.5 million Imperial Gallons (IG) of water
- Recycled 99.25 metric tons of paper. Over the past two years recycled a total of 226.35 metric tons of paper
- Committed to responsible and sustainable procurement through embedding ESG risks into vendor sourcing and management
- Reviewed and updated the Bank's Procurement policies to embed ESG-related principles in its vendor sourcing and management processes
- Ensured all our outsourcing contracts operate under Kuwaiti Labor Law
- Committed to environmental finance through our Sustainable Financing Framework
- Expanded our consumer banking offerings to Eco-friendly EV Loans and Eco-friendly Housing Loans

Pillar 3: Capitalizing on Our Capabilities

Our ambition is to drive sustainable business growth achieved through organizational resilience. At the core of our bank's growth and prosperity lies our invaluable team, the driving force behind our accomplishments and our culture and practices that enable bank-wide ESG transformation.

In 2023, we

- Diversity and inclusion in the workplace: Women in workforce 44%, women in management 28.8%
- Provided key Sustainability Champions across the Bank with a Global Reporting Initiative (GRI) Standards training program
- Launched a Group-wide specialized training module focused on essential sustainability concepts
- NBK Kuwait employees received 147,701 training hours. Also, provided 3,313 training hours on ESG-related topics with focus on Sustainability Awareness, Sustainable Finance, and Climate Risk Management
- Launched employee engagement survey "Your Voice Matters" 2023, providing employees with the opportunity to share their opinions and feedback on how to make NBK an even better place to work
- Developed a formal grievance policy to help address employee concerns in a constructive and fair manner, published on the Group website
- Launched a new mobile banking experience for NBK customers themed "Tailored for You", to provide them with the latest and most advanced digital services

Our Employee Value Proposition

Our Employee Value Proposition (EVP) extends beyond traditional benefits and remuneration where it embodies a commitment to fostering a workplace where individual growth and collective success converge. At NBK, we recognize and value the unique contributions of each team member, providing opportunities for professional development, a dynamic work environment, and a culture that encourages innovation.

We Promote Health, Safety, and Wellbeing

We prioritize employee health and wellbeing through various targeted initiatives and enhanced policies. Our focus on health, safety, and wellbeing goes beyond industry norms to ensure primary care for employees, aligning with international standards and regulations.

Wellbeing Initiatives:

- NBK Clinic: Operated and managed through a partnership with Wara Hospital to provide employees with specialized on-site medical support
- Organized regular visits for specialized doctors to NBK Clinic throughout the year
- Awareness Campaigns:
  - Mental health – work life balance knowledge bites from specialized practitioners
  - Breast Cancer: A month dedicated to awareness and on-site screening available to female employees
  - World Diabetes
  - Movember
- Introduced paternity leave - fathers are entitled to 3 days of paternity leave

We Foster Learning and Development

We proactively undertake the responsibility of upskilling our employees, preparing them to navigate the challenges posed by dynamic market landscapes and evolving industry demands. This forward-thinking investment not only empowers our workforce to excel in the face of challenges but also positions our organization at the forefront of innovation and competitiveness.

Leadership Development Programs Initiatives:

- **RISE:** Designed for women's development
- **High Flyers Program:** Designed for young talents
- **Collective Executive Development Program:** Designed for NBK Executives
- **Middle Management Program:** Targets middle managers and newly promoted managers covering the essentials of management
- **NBK Academy:** Established in 2008 to provide upskilling training for fresh Kuwaiti graduates to prepare them for their lifetime career
- **NBK Tech Academy:** Focused on technology skill sets
- **GRI Certified Training:** Addressed to key Sustainability Champions across the bank
- **Data Mindset Curriculum:** Launched to provide employees with a basic understanding of the data requirements in the Banking sector
- **Specialized Trainings:** Developed various interventions to cater for specialist functions and business needs i.e., Operations, Compliance, Legal, Audit, Risk Management, and Sustainability
- **Off-site Trainings:** Top talents attended leadership and executive leadership development programs with various top tier universities and training providers such as INSEAD, Harvard Business School, Franklyn Covey, and more

We Enhance Employee Satisfaction and Growth
The Performance Management system at NBK stands as a beacon for employee development, aligning individual goals seamlessly with organizational objectives. The introduction of self-individual reviews and surveys for candidates and hiring managers enhances transparency and reflects our steadfast commitment to fostering the holistic growth of each and every employee within NBK.

Employee Satisfaction and Growth Initiatives:

- "Your Voice Matters" 2023: Launched the Employee Engagement Survey to measure the extent to which employees feel valued, involved, and invested in NBK's mission and its success. This survey is conducted every two years
- In 2023, NBK Group achieved an impressive response rate of 86% with a positive Sustainable Engagement score of 84%, 1% higher than our previous survey in 2021 and 7% higher than the Global Financial Services industry average

We Champion Diversity, Equity, and Inclusion
At NBK, we take immense pride in being the employer of choice that champions equal opportunities for all. In 2023, NBK committed to increase women in management to 35% by 2035. This commitment is evident in significant policy updates and shifts, changes in the annual ticket policy and sustained efforts aimed at enhancing the representation of women in leadership positions, reinforcing our commitment to fostering an inclusive and equitable workplace.

Our unwavering commitment to fostering inclusivity is set to reach new heights with the development and launch of a comprehensive Diversity, Equity, and Inclusion (DEI) strategy in 2024.

The HR Landscape at NBK

Number of Global Employees: 8,049
Gender Repartition: Male (56%);
Female (44%);
28.8% females in managerial positions

Science, Technology, Engineering, and Math (STEM) employees: 263 with 27.8% of women in STEM positions

Nationalities employed: 39
Nationalization rate:76.7%

Training hours given: 147,701 (locally)
36,764 (internationally)

Prominent Recognitions
Awarded by MEED International Magazine

Best Initiative for Women in Business	**Best Implementation of Diversity & Inclusion Initiatives**

Digitalization at the Core
In line with NBK's ESG Strategy pillar of 'Capitalizing on Our Capabilities' and its commitment to "establish a digital and agile work environment", and driven by the Group's Digital Transformation Strategy, developing innovative digital solutions is key for the seamless integration between NBK's core business strategy and its ESG Strategy.

In 2023, we

- Recorded more than 50 million transactions through NBK Mobile Banking Application; a YOY growth of 19% in 2023
- Total active customers executing their banking transactions digitally, including mobile and online banking was around 500k
- Integrated the SmartWealth investment service within the NBK Mobile Banking Application, which allows NBK customers to invest in global markets through a quick and simplified process
- Launched new designs for all our cards with customer-tailored features, including design themes especially for the visually impaired
- Renewed its sponsorship of the Kuwait Dive Team (KDT) for the second year in a row, with the aim of rehabilitating and protecting Kuwait's marine environment and ecosystem. In 2023, removed 150 tons of plastic, discarded fishing nets, and shipwreck from Kuwait's bays and coasts, an eight-fold increase from 2022
- Recorded zero incidents of data leaks or breaches

Prominent Recognitions
Awarded by Global Finance

Group Digital Office named "Best Financial Innovation Labs 2023"	**Named "Best Innovation and Transformation – 2023" Globally and in the Middle East**

Pillar 4: Investing in Our Communities

Our commitment is to uphold our strong legacy of maximizing the social impact of our businesses and operations while creating shared value in the communities where we operate. Our efforts are focused on providing optimal customer service and advocacy, increasing financial inclusion, accessibility and literacy, and ensuring customer protection and data privacy and security.

Focus Areas	Key Community Partners
• Women Empowerment • Healthcare & Wellbeing • Youth & Education • Fostering Workplace • Caring for the Environment • Community Outreach	• Lothan Youth Achievement Center (LOYAC) • Creative Confidence • Kuwait Red Crescent Society (KRCS) • Kuwait Association for the Care of Children in Hospital (KACCH) • Bayt Abdullah Children's Hospice (BACCH) • Center 21 for Special Needs

In 2023, we

- Partnered with Visa on 'She's Next' initiative, a global advocacy program that supports women-owned small businesses
- Officially launched the 'Bankee' financial literacy program in public and private schools, with 15,130 students and around 3,000 teachers participating
- Actively involved in the Central Bank of Kuwait's "Let's Be Aware" campaign, focusing on raising awareness on critical financial and data security matters
- NBK organized a Media Awareness Workshop on Sustainability and Climate Change, the first-of-its-kind in Kuwait
- Signed an agreement with Kuwait Municipal for the development and beautification of Shuwaikh Beach Waterfront spanning an area of 1.7 km, in line with sustainable design principles

Promoting and Nurturing Local Talent

- Continued efforts to support and nurture local talent. As of 31 December 2023, Nationalization rate was 76.7%
- Launched NBK Tech Academy, first of its kind training program, focused on upskilling young local talent on digital and data technologies
- In 2023, launched NBK Academy Wave 27 and Wave 28 with a total of 37 candidates

Making a Positive Impact on Our Communities

- KD 28 million total community investments, a 22% increase from 2022
- KD 20 million SME lending, a 12% increase from 2022
- Maintained ISO 27001 Certification and is compliant with Central Bank of Kuwait (CBK) Cybersecurity Framework

Prominent Recognitions
Awarded by Euromoney

Awarded "Best Bank for Corporate Responsibility in the Middle East 2023"

Moving Forward

As a responsible and sustainable financial institution, we leverage our business not only to foster economic growth but also to promote positive change. For the future and beyond, we are capitalizing on our leading role to influence and drive acceleration of ESG integration by enhancing our international alignment with prominent sustainability frameworks and standards. Given the widespread exposure to climate change concerns, promoting sustainable finance, and fully integrating ESG and climate risk into core financial strategies hold the utmost importance for the GCC to build economic resilience and adapt and mitigate the effects of climate change.

In 2024, we will

- Focus on climate risk management through the development of a bank-wide Environmental and Social Risk Management (ESRM) Framework and integration of climate risks and opportunities in related processes
- Increase stakeholder engagement and international alignment by engaging with and joining sustainability frameworks and industry-led initiatives
- Grow our sustainable finance value proposition and focus on the decarbonization of our portfolio in line with our carbon neutrality commitment

Governance

NBK is aligned with international best practice in Corporate Governance.
It is the responsibility of the Board of Directors and its Committees to ensure that regulatory, compliance and ethical standards are upheld across the Bank and its subsidiaries.

Board of Directors

Mr. Hamad Mohamed Al-Bahar

Chairman

Mr. Al-Bahar has been a Board Member of NBK since 2005 and Chairman of the Board since March 2022. He is Chairman of Board Corporate Governance Committee and the Board Credit Committee.

Mr. Al-Bahar sat on the Board of the Kuwait Investment Company from 1981 to 1991, where he served as Chairman and Managing Director. He also served as Managing Director of the Bank of Bahrain and Kuwait. He has extensive experience in Investment Banking and Asset Management, in addition to internal controls.

Mr. Al-Bahar holds a Bachelor of Arts degree in Economics from Alexandria University, Egypt.

Mr. Isam Jassim Al-Sager

Vice Chairman and Group Chief Executive Officer

Mr. Al-Sager joined the Bank in 1978 and was appointed as GCEO in March 2014. He joined the Board in March 2022 where he was elected as Vice Chairman. He had previously served as Deputy Group Chief Executive Officer since 2010. He is a member of the Board Credit Committee.

Mr. Al-Sager serves as the Chairman or member of several of the group's management committees. He is Chairman of the board of NBK (International) PLC and serves on the board of directors of Watani Wealth Management (Kingdom of Saudi Arabia). Mr. Al-Sager is a board member of MasterCard. He was the Chairman of National Bank of Kuwait – Egypt until May 2019 and a Vice Chairman of the Turkish Bank and Board member of Watani Holding and NBK Trustees (Jersey) Limited. Mr. Al-Sager enjoys an extensive banking experience at NBK and has played a major role in turning the Bank into a leading regional institution with a wide international presence.

Mr. Al-Sager holds a Bachelor of Science degree in Business Administration from California State Polytechnic University, United States.

Mr. Yacoub Yousef Al-Fulaij

Board Member

Mr. Al-Fulaij has been a Board Member of NBK since 1998 and was General Manager at the Bank from 1983 to 1998. He is also a member of the Board Credit Committee and Board Corporate Governance Committee. Mr. Al-Fulaij has broad experience of banking activities, including Risk Management and Internal Controls.

Mr. Al-Fulaij holds a Bachelor of Arts degree in Business Administration from the University of Miami, USA.

Mr. Muthana Mohamed Ahmed Al-Hamad

Board Member

Mr. Al-Hamad has been a Board Member of NBK since 2007. He is also a member of the Board Nomination and Remuneration, the Board Audit, the Board Risk and Compliance Committee and the Board Corporate Governance Committee. Additionally, Mr. Al-Hamad is the Vice-Chairman of Alwatyah United Real Estate Company and was Chairman of Future Communication Company International from 2005 to 2014.

He was previously a Board Member of the Arab European Company for Financial Management (AREF) from 1987 to 1993, and served on the Board of the Commercial Bank of Kuwait from 1993 to 1997, as well as the United Bank of Kuwait (London) from 1996 to 1997. He has considerable experience in Finance and Business Economics.

Mr. Al-Hamad holds a Bachelor of Arts degree in Economic and Political Science from Kuwait University.

Mr. Haitham Sulaiman Hamoud Al-Khaled

Board Member

Mr. Al-Khaled has been a Board Member of NBK since 2010. He is also a member of the Board Audit Committee, Board Risk & Compliance Committee and the Board Nomination and Remuneration Committee.

Mr. Al-Khaled has been a Board Member of Al Shall Investments Holding Co. since 2005 and Al Arjan International Real Estate Company since 2010, where he has been Chairman since 2014.

Mr. Al-Khaled is also a Board member of Rasameel Investments Co. since 2016 and Kuwait Insurance Co. since 2019 and at ACICO Industries Co. since 2021.

Mr. Al-Khaled previously held the following positions at the leading telecom operator, Zain: Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer, amongst other responsibilities. He has extensive experience in strategic planning, investments, mergers and acquisitions, corporate governance and internal controls.

Mr. Al-Khaled holds a Bachelor of Science degree in Electronic Engineering from Kuwait University.

Mr. Emad Mohamed Al-Bahar

Board Member

Mr. Al-Bahar joined NBK as a Board Member in August 2014, following the passing away of the former Chairman, Mr. Mohamed Abdul Rahman Al-Bahar. He is also a member of the Board Nomination and Remuneration Committee and the Board Credit Committee.

Mr. Al-Bahar is the Chairman of Dar Labit Holding since 2015 and a Member of the Executive Board of Al-Bahar Group, one of the oldest trading conglomerates in Kuwait and the Middle East. In addition to his role on the Executive Board and in the strategic decision-making team at Al-Bahar, he is a Board Member of Al Ahlia Insurance Company Kuwait since 1999 and the Vice-Chairman since 2017 and served on the Board of the Gulf Bank from 1992 to 1994.

Mr. Al-Bahar holds a Bachelor's degree in management from the American University in Washington DC, USA.

Board of Directors (continued)

Mrs. Huda Mohammad S. Al-Refaei

Board Member

Mrs. Al-Refaei has been a Board member since March 2022. She is a member of the Board Risk and Compliance Committee and the Board Corporate Governance Committee.

Mrs. Al-Refaei worked as a risk management officer at the Bank from 1999 to 2003. She served as a board member of Posta Plus Company from 2008 to 2012 and as a senior lawyer at Abdullah Al-Refaei Legal Consultancy & Law Firm from 2009 to 2019.

Mrs. Al-Refaei holds a Bachelor's degree in Industrial and Systems Engineering from Kuwait University, Kuwait and a Bachelor of Law degree from Cairo University, Egypt.

Dr. Robert Maroun Eid

Independent Board Member

Dr. Eid has been an Independent Board member since March 2021. He is the Chairman of the Board Risk and Compliance Committee. He is also a member of the Board Audit Committee.

Dr. Eid has served as a Managing Director & Chief Executive Officer of the Arab National Bank in Saudi Arabia from 2005 till January 2021. He also spent over 22 years with the National Bank of Kuwait as head of International Banking Group in addition to serving as a Managing Director & Chief Executive Officer of the National Bank of Kuwait (International) PLC from 1998 till 2005. He has nearly four decades of international experience in banking.

Dr. Eid holds a PhD in Money & Banking from Sorbonne University, France.

Dr. Nasser Saidi

Independent Board Member

Dr. Saidi has been an independent Board member since March 2021. He is a member of the Board Audit Committee.

Dr. Saidi was the Minister of Economy and Trade and Minister of Industry of Lebanon between 1998 and 2000. He was the first Vice-Governor of the Central Bank of Lebanon for two successive mandates, from 1993 to 2003.

He is the former Chief Economist and Head of External Relations of Dubai International Financial Centre and Executive Director of the Hawkamah-Institute for Corporate Governance. He is the Founder and Chair of the MENA Clean Energy Business Council.

Dr. Saidi holds a PhD and a MA in Economics from the University of Rochester in the USA, a M.Sc. from University College, London University, United Kingdom and a BA from the American University of Beirut, Lebanon.

Mr. Abdulwahab Ahmad Al-Bader

Independent Board Member

Mr. Al-Bader has been an Independent Board member since March 2022. He is the Chairman of the Board Nomination and Remuneration Committee and a member of the Board Corporate Governance Committee.

Mr. Al-Bader held a number of senior positions at Kuwait Fund for Arab Economic Development from 1977 to 2021, with the most recent being the General Manager from 2005 to 2021. He was also the alternate governor for the State of Kuwait to the OPEC Fund for International Development from 1981 to 1986, governor from 1986 to 2014 and Chairman of the governing board from 2014 to 2021. He has also been a director of various entities.

Mr. Al-Bader holds a Bachelor of Arts degree from Whittier College, USA.

Mr. Farouk Ali Akbar Bastaki

Independent Board Member

Mr. Bastaki has been an Independent Board member since March 2022. He is the Chairman of the Board Audit Committee and a member of the Board Risk and Compliance Committee.

Mr. Bastaki has been an Independent Board Member of Mabanee Co. since March 2022. He held a number of senior positions including member of the Board of Directors and Managing Director of the Kuwait Investment Authority, Chairman of the Board of St. Martins Property Group (London) and Chairman of the Board of Directors of National Technology Enterprises Company. Mr. Bastaki previously served as board member of Gulf Bank and Board member of the Kuwait Fund for Economic Development in addition to a membership in Fosterlane (USA). He has extensive experience for more than 33 years in finance, alternative investments and real estate investments locally and internationally. He also has deep knowledge in internal audit, risk management, governance, compliance and anti-money laundering.

Mr. Bastaki holds a Bachelor's degree in Industrial Engineering from University of Miami, USA.

Executive Management

Mr. Isam Jassim Al-Sager
(Vice Chairman & Group Chief Executive Officer)

Mr. Al-Sager joined the Bank in 1978 and was appointed as Vice Chairman & GCEO in March 2022. He had previously served as Group Chief Executive Officer since 2014. He is a member of the Board Credit Committee. Mr. Al Sager serves as the Chairman or member of several group's management Committees.

Mr. Al-Sager is the Chairman of the Board of NBK (International) PLC and serves on the Board of Directors of Watani Wealth Management (KSA). Mr Al-Sager is a Board member of MasterCard. He was the Chairman of National Bank of Kuwait – Egypt, Vice Chairman of The Turkish Bank and Board member of Watani Holding and NBK Trustees (Jersey) Limited.

Mr Al-Sager enjoys an extensive banking experience at NBK and has played a major role in turning the Bank into a leading regional institution with a wide international presence.

Mr. Al-Sager holds a Bachelor of Science Degree in Business Administration from California State Polytechnic University, USA.

Mrs. Shaikha Khaled Al-Bahar
(Deputy Group Chief Executive Officer)

Mrs. Al-Bahar has been the Deputy Group Chief Executive Officer since March 2014. She is a member of various Management Committees. She is the Chairperson of NBK Egypt, NBK France and NBK Lebanon. Mrs. Al-Bahar serves on the Board of NBK (International) PLC, United Kingdom, NBK Global Asset Management Limited and Turkish Bank. Mrs. Al-Bahar has experience in project finance, advisory services, bond issues, Build/Operate/ Transfer financing and Initial Public Offerings. She holds a Bachelor of Science degree in International Marketing from Kuwait University, and has attended specialized programs at Harvard Business School, Stanford University, Wharton School and Duke University (USA).

Mr. Salah Yousef Al-Fulaij
(Chief Executive Officer – Kuwait)

Mr. Al-Fulaij joined NBK in 1985 and has been the Chief Executive Officer – Kuwait since 2015. He is a member of various Management Committees. Mr. Al-Fulaij serves on the board of NBK France and NBK Capital. He was the Chief Executive Officer of NBK Capital from 2008 to 2014, and previously Group General Manager of Treasury and Investments Services. Mr. Al-Fulaij is a graduate of the University of Miami, where he received his Bachelor's Degree in Industrial Engineering and his MBA in Business Management. He has participated in a number of executive programs at Harvard Business School, Stanford Graduate School of Business, and Duke University (USA).

Mr. Sulaiman Barrak Al-Marzouq
(Deputy Chief Executive Officer – Kuwait)

Mr. Al-Marzouq joined NBK in 2002 and now he is the Deputy Chief Executive Officer – Kuwait since 2017. He moved to the Central Bank of Kuwait from 2012 to 2015, where he headed the Department of Foreign Operations, before moving back to NBK as Group Treasurer. Mr. Al-Marzouq serves on the board of NBK Egypt, NBK Capital and Hayat Investment Company. He is a member of various Management Committees. He has extensive experience in Investment and Wealth Management, in addition to experience in Treasury and Banking Operations. He has served as a Board Member for several banks and companies in Kuwait. Mr. Al-Marzouq holds a bachelor's degree in Economics from Portland State University, USA.

Executive Management (continued)

Faisal Abdulatif Al-Hamad
(CEO of NBK Wealth)

Mr. Al-Hamad has been the CEO of NBK Wealth Management since April 2021. He serves as the Chairperson of NBK Capital, in addition to serving as a board member on several other NBK Group entities, and a member of various Management Committees. Prior to that, Mr. Al-Hamad was the CEO of NBK Capital and held several senior positions there since joining in 2007. Mr. Al-Hamad has previously held several senior positions in leading organizations, including General Manager at Agility Kuwait and Associate Director at Wellington Management International in the UK. Mr. Al-Hamad holds an MBA from Harvard Business School and a Bachelor's Degree from the University of Chicago.

Mr. Omar Bouhadiba
(CEO International Banking Group)

Mr. Omar Bouhadiba joined NBK in November 2020 as CEO of International Banking Group. Mr. Bouhadiba serves on the Board of NBK (International) PLC, United Kingdom , NBK Egypt and NBK France. He has an extensive experience in corporate and investment banking, with Bank of America, Mashreq Bank, NBK, Arab Bank plc and most recently with Barwa Bank as Senior Advisor to the Board of Directors and International Bank of Qatar as Chief Executive Officer. Mr. Bouhadiba holds a Master's Degree in Business Administration (MBA) in Finance from the Wharton School of Finance of the University of Pennsylvania (USA).

Mr. Emad Al-Ablani
(General Manager – Group Human Resources)

Mr. Al-Ablani joined NBK in March 2003 and was appointed as General Manager – Group Human Resources in 2014. He is also a member of various Management Committees. Former appointments at NBK include Deputy General Manager, Head of Human Resources – Kuwait and Assistant General Manager – Recruitment & HR Operations. He has an extensive experience in Human Resources. Mr. Al-Ablani holds an Executive Master's degree in Business Administration (EMBA), from the American University of Beirut (Lebanon) and a Bachelor of Arts Degree in Educational Psychology from Kuwait University.

Mr. Mohammed Al Othman
(Chief Executive Officer of Consumer & Digital Banking for the Group)

Mr. Mohammed Al Othman joined NBK Group in 2006 and has been Chief Executive Officer of Consumer & Digital Banking for the Group since May 2023. Prior to that he was Head of Consumer Banking Group since April 2018. He is also a member of various Management Committees. Mr. Al Othman is the Chairman of the Shared Electronic Banking Services Company (K-Net) and a member since 2014. Mr. Al Othman has extensive expertise in retail banking, Digital Banking, personal banking, payment services and banking products. Mr. Al-Othman holds a Bachelor's Degree in Philosophy from Kuwait University and has attended several training programs at Harvard Business School, Columbia Business School and Insead.

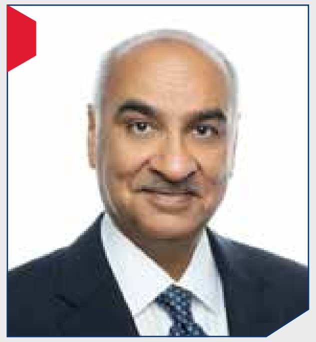
Mr. Sujit Ronghe
(Group Chief Financial Officer)

Mr. Ronghe joined the Bank in 2002 and was appointed as Group Chief Financial Officer from June 2022. He has been the Group Financial Controller since 2012. Prior to joining the Bank, Mr. Ronghe worked as a Senior Auditor at a Big4 accounting firm in Kuwait. He has extensive experience in finance and banking. Mr. Ronghe is a member of the Institute of Chartered Accountants of India and a graduate of the Institute of Cost Accountants of India. He also holds a Bachelor of Commerce Degree from the University of Pune, India.

Mr. Ahmed Bourisly
(General Manager - Corporate Banking Group)

Mr. Bourisly joined NBK in 1998 and has been General Manager, Domestic Corporate Banking at NBK since June 2019. He served on the Board of NBK Capital until January 2015. He serves on the Board of Boubyan Takaful. He is also a member of various Management and Credit Committees. Mr. Bourisly has extensive experience in all areas of Credit and Corporate Banking Management. He holds a Bachelor's Degree in Business Administration with a concentration in Marketing from University of the Pacific, CA. He attended numerous training courses and seminars at Harvard University (USA) and INSEAD, France.

Executive Management (continued)



Mr. Pradeep Handa

(General Manager - Foreign Corporate, Oil and Trade Finance Group)

Mr. Handa joined NBK in 1980 and has been General Manager - Foreign Corporate, Oil and Trade Finance Group since 2012. He is also a member of various Management Committees. Former appointments at NBK include Assistant General Manager, Executive Manager and Senior Manager at Corporate Banking Group - Kuwait. He has an extensive experience in handling Foreign Corporate Banking and Oil and Trade Finance matters.

Mr. Handa holds a Master's Degree from the University of Delhi, India.

Mr. Mohammed Al Kharafi

(Chief Operating Officer- Head of Operations and Information Technology for the Group)

Mr. Mohammed Al Kharafi joined the Group in 2001 and has been Chief Operating Officer - Head of Operations and Information Technology for the Group since May 2023. He serves also as a member of various Management Committees. Prior to that, he held several leadership positions in Operations and Consumer Banking Group. He served on the board of the Credit Information Network Company (Ci- Net). He has extensive experience in retail banking, Digital banking; Intelligent Automation, Technology and operations. Mr. Mohammed Al Kharafi has a Bachelor's Degree in Business Administration from the Arab Open University. He has participated in a number of Executive Education Programs at Harvard Business School, Chicago Booth School of Business, Stanford, Columbia Business School, Insead and American University of Beirut.

Mr. Jad Zakhour

(General Manager – Head of Treasury Group)

Mr. Zakhour joined the Group in 2006 and has been Head of Treasury Group since Jan 2020. He was previously the Deputy Group Treasurer since August 2014.

He is also a member of various management committees. Mr. Zakhour has extensive experience in treasury, investment and wealth management. Mr. Zakhour holds a Bachelor's Degree in Civil Engineering from Homs University and a Master's Degree in Business Administration in Finance from American University of Beirut. He is a Certified Financial Risk Manager (FRM). Mr. Zakhour has participated in a number of Executive Programs at Harvard Business School and INSEAD.

Corporate Governance Framework

National Bank of Kuwait Group is aligned with the best international Corporate Governance practices and risk management, to protect stakeholders' rights. During 2023, the Group adhered to all the provisions and determinants of CBK instructions regarding the Corporate Governance rules and standards for Kuwaiti banks, issued in September 2019, as well as the regulatory instructions related to governance in Kuwait and those issued by other countries in which the Group's entities operate.

Represented by the effective supervisory role of the Board of Directors and the Executive Management, the Group focused on improving the Corporate Governance and compliance culture across all of its entities, where the Corporate Governance Framework is constantly developed to establish sound and effective corporate values. This is achieved through a set of policies, procedures and standards adopted by the Group, which are periodically updated to be in line with the best applicable and relevant international practices.

The Group recognizes the importance of applying the principles and standards of good governance; It follows professional and ethical standards in all kinds of deals, and ensures disclosure and transparency of information that is accurate and timely. This contributes to the development of the Group's working efficiency and enhances the confidence of shareholders, related parties and stakeholders in the Group's performance, as well as the banking sector in Kuwait.
During 2023, the Group achieved a number of key accomplishments in the effective implementation of the Corporate Governance Framework. These are as follows:

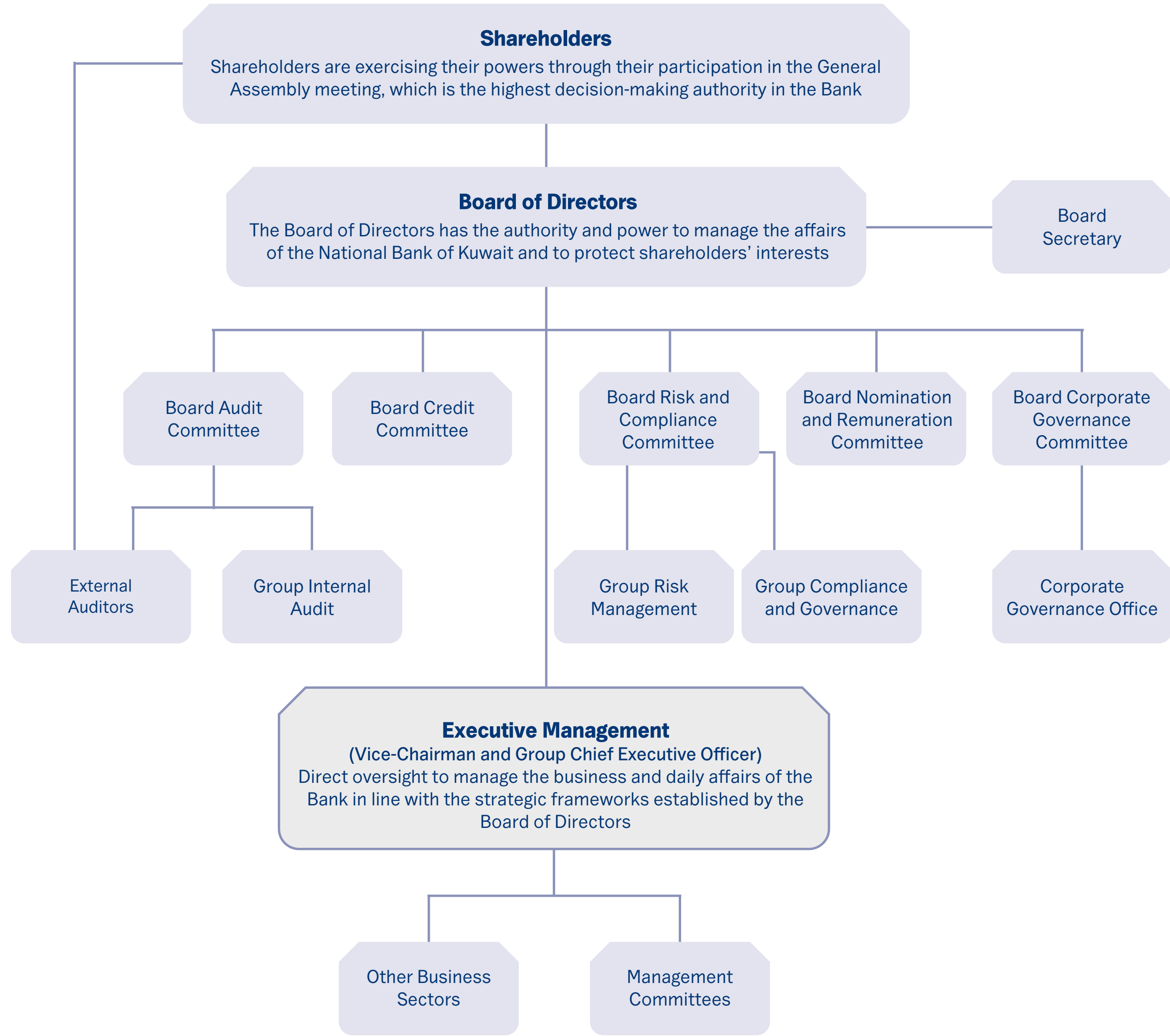
- Reviewed and updated the governance policies and charters according to the regulatory instructions in Kuwait and the instructions issued by the regulatory authorities in countries where the Group operates
- Developed and implemented best practices in Governance compliance, regulatory risks, Foreign Account Tax Compliance Act (FATCA), Anti Money Laundering / Combating Financing of Terrorism, Anti-financial crimes, Information Technology and Cybersecurity Risks.
- Conducted an independent review and assessed the efficiency of implementing Corporate Governance at NBK subsidiaries, by monitoring and supporting the governance units at these subsidiaries, which manage the affairs of the Board of Directors and their Committees.
- Developed and continually improved the Corporate Governance reporting systems between entities of the Group.
- Fulfilled the Capital Markets Authority requirements of the Corporate Governance regulations for NBK Capital and Watani Financial Brokerage Company.

The Board and Committees' composition and duties

NBK Group's Board of Directors is composed of eleven (11) members (one (1) executive member, six (6) non-executive members and four (4) independent members) representing the shareholders. The Board members are elected and appointed by the General Assembly of the Bank, for three (3) years. The Board aims to strengthen the long-term success of the Group and to deliver sustainable value to shareholders.

The Board's structure is generally characterized by having the appropriate number of members, diversity of professional experience, educational qualifications and broad knowledge of the banking and business sectors. Board members collectively hold experience and knowledge in the areas of accounting, finance, economics, strategic planning, corporate governance, internal control and risk management, in addition to outstanding experience in the local and regional business environment.
The Group's balanced and non-complex Board structure facilitates the process of exchange of information on an accurate and timely basis between different Group entities. This has been accomplished by establishing direct communication channels across the Group, which promote the principle of disclosure and transparency regarding Group operations. Moreover, the structure maintains the supervisory role assigned to the Board, and effectively contributes to fulfilling the Board's responsibilities.
To comply with the supervisory regulations issued by CBK, in addition to the Group's effort to effectively implement the Corporate Governance Framework, the Group formed an appropriate number of Committees that are aligned with the size of the Group, the nature and complexity of its activities, and the geographical distribution of the Group's entities. The Board of Directors formed five sub-committees to enhance the Board's effectiveness in overseeing important Group operations.

The Corporate Governance Framework of the Group is illustrated as follows:



Group's Board of directors Sub-Committee

Corporate Governance Committee	Nomination and Remuneration Committee	Risk and Compliance Committee	Audit Committee	Credit Committee
1. Mr. Hamad Mohamed Al-Bahar (Board and Committee Chairman 2. Mr. Yacoub Yousef Al-Fulaij 3. Mr. Muthana Mohamed Al-Hamad 4. Mrs. Huda Mohammad S. Al-Rifai 5. Mr. Abdulwahab Ahmad H. Al-Bader	1. Mr. Abdulwahab Ahmad H. Al-Bader (Independent Board member and Committee chairman) 2. Mr. Muthana Mohamed Al-Hamad 3. Mr. Haitham Sulaiman Al-Khaled 4. Mr. Emad Mohamed Al Bahar	1. Dr. Robert Maroun Eid (Independent Board member and Committee Chairman 2. Mr. Muthana Mohamed Al-Hamad 3. Mr. Haitham Sulaiman Al-Khaled 4. Mrs. Huda Mohammad S. Al-Rifai 5. Mr. Farouq Ali Akbar A. Bastiki	1. Mr. Farouq Ali Akbar A. Bastiki (Independent Board member and Committee Chairman) 2. Mr. Muthana Mohamed Al-Hamad 3. Mr. Haitham Sulaiman Al-Khaled 4. Dr. Robert Maroun Eid 5. Dr. Nasser Amin Saidi	1. Mr. Hamad Mohamed Al-Bahar (Board and Committee Chairman) 2. Mr. Yacoub Yousef Al-Fulaij 3. Mr. Emad Mohamed Al Bahar 4. Mr. Isam Jasem A. Al-Sager (Board Vice - Chairman and Group Chief Executive Officer)
Committee's mission: Assist the Board in overseeing the implementation of the Group's Corporate Governance. The Committee is also responsible for monitoring the implementation progress of the policies and procedures pertaining to governance.	**Committee's mission:** Assist the Board in carrying out the Nomination and Remuneration responsibilities pertaining to the Board of Directors and Executive Management. The Committee also supports the Board in reviewing and enhancing Board structure and development of the caliber of the Board Members. It also assists the Board in setting up the Group's remuneration framework and ensures effective implementation in accordance with Group remuneration policy.	**Committee's mission:** Assists the Board in carrying out its responsibilities with respect to the Group's risk management and Group Compliance & Governance functions by evaluating and monitoring the risk governance framework, risk appetite, risk strategy and capital planning. In addition to its role of overseeing the adequacy of regulatory compliance and enhancing compliance culture across the Group.	**Committee's mission:** Assists the Board in a supervisory role regarding the efficiency and independence of the internal and external audit operations for the Group. Also oversees the preparation of the periodic financial statements and other regulatory reports.	**Committee's mission:** Responsible for reviewing the quality and performance of the Group's credit portfolio. The Board has authorized the Committee to approve credit facilities that exceed the authorization granted to Senior Management, in accordance with the Credit Policy and the approved authority matrix of the Group in accordance with the related regulatory instruction.

Board of Directors and Committee Meetings

The Board of Directors held ten (10) meetings during 2023. Minutes of all meetings have been documented and are included in the Bank's records.

The below table shows names of the Board of Directors, their memberships in Board Sub-Committees and number of meetings that reached fourty nine (49) meetings, in addition to the number of meetings attended by each member during the year.

Board of Directors Members	Committee Membership	Board of Directors	Corporate Governance	Nomination & Remuneration	Risk & Compliance	Audit	Credit
Mr. Hamad Mohammed Al-Bahar *(Non-Executive member)*	• Chairman of Board of Directors • Chairman of Corporate Governance Committee • Chairman of Credit Committee	9	2				16
Mr. Isam Jasem A. Al-Sager *(Executive member)*	• Vice-Chairman and Group Chief Executive Officer • Member of Credit Committee	10					22
Mr. Yacoub Yousef Al-Fulaij *(Non-Executive member)*	• Member of Corporate Governance Committee • Member of Credit Committee	7	1				17
Mr. Muthana Mohamed Al-Hamad *(Non-Executive member)*	• Member of Corporate Governance Committee • Member of Nomination and Remuneration Committee • Member of Audit Committee • Member of Risk and Compliance Committee	10	2	3	8	10	
Mr. Haitham Sulaiman Al-Khaled *(Non-Executive member)*	• Member of Risk and Compliance Committee • Member of Audit Committee • Member of Nomination and Remuneration Committee	9		2	8	10	
Mr. Emad Mohamed Al Bahar *(Non-Executive member)*	• Member of Nomination and Remuneration Committee • Member of Credit Committee	8		3			18
Mrs. Huda Mohammad S. Al-Rifai *(Non-Executive member)*	• Member of Risk and Compliance Committee • Member of Corporate Governance Committee	10	1		8		
Dr. Robert Maroun Eid *(Independent member)*	• Chairman of Risk &Compliance Committee • Member of Audit Committee	10			8	10	
Dr. Nasser Amin Saidi *(Independent member)*	• Member of Audit Committee	9				10	
Mr. Abdulwahab Ahmad H. Al-Bader *(Independent member)*	• Chairman of Nomination and Remuneration Committee • Member of Corporate Governance Committee	10	2	3			
Mr. Farouq Ali Akbar A. Bastaki *(Independent member)*	• Chairman of Audit Committee • Member of Risk and Compliance Committee	10			7	10	
Total number of meetings		**10**	**2**	**3**	**8**	**10**	**23**

Meetings held by the Board of Directors and its Committees during 2023 were in compliance with Central Bank of Kuwait governance rules and standards, and the Board and Committees' charters in terms of the number of meetings, periodicity, the quorum, and the topics reviewed and discussed by members.

Effective Implementation of the Corporate Governance Framework

General overview:

The Group Board of Directors permanently and continuously strives to achieve the best interest of the Bank's shareholders through effective oversight and monitoring of the work of the Executive Management, ensuring the implementation of the Bank's strategy and objectives, and confirming that performance is in accordance with the Bank's plans. During the year, the Board of Directors reviewed and developed the Group's strategy and risk appetite, including all future plans of subsidiaries and overseas branches. The Board of Directors gives particular importance to the implementation of governance at Group level, by creating a culture of corporate values among the Bank's entire staff. This is achieved through constant efforts to achieve the Bank's strategic objectives, improving Key Performance Indicators, and compliance with laws and regulations, especially the rules of Corporate Governance. In addition, the Board adopts a set of policies, charters, systems, mechanisms, reports and procedures which the Group has effectively and integrally applied, relying on the philosophy of the Group in the implementation of Corporate Governance as a culture and working principle, and not only as supervisory instructions and legislative regulations.
The followings are the most important achievements of the Board of Directors and its Committees during 2023:

Board of Directors' Key Achievements

The Board of Directors met ten (10) times during the year and the followings key duties were accomplished:

- Approved the Budget for the year 2023, the Interim Financial Information, the audit-ed balance sheet, profit & loss account of the Bank and dividends for the financial year ended on 31/12/2022.
- Discussed the risk appetite and its impact on the Group›s strategy.
- Reviewed the results of the Internal Capital Adequacy Assessment Process ("ICAAP"), financial stress testing as per the regulatory requirement of Basel (3).
- Discussed and approved general and specific provisions for the local and international loan portfolio.
- Approved the update of financial authority matrix for the GCEO, the DGCEO, the CEO-Kuwait , his Deputy and Head of wealth management..
- Reviewed the Board of Directors' structures within subsidiaries, on an ongoing basis, ensuring their compliance with the regulatory requirements and the general policy of the Group's governance framework.
- Followed the progress of the Group's operations, through regular meetings with Execu-tive Management and discussed the results of the Group's business through periodic reports prepared by the Financial Group, which clarifies the most important financial indicators of the Bank›s budget and profits according to geographical distribution of branches and foreign subsidiaries.
- Reviewed and evaluated the effectiveness of the Board and its Committees, in addition to conducting individual self-assessments of the Board and Committee members.
- Reviewed the remuneration framework, the mechanism of linking rewards to perfor-mance the level of risk exposure and updated the remuneration policy at Group level.
- Oversaw the implementation of the Corporate Governance Framework at Group level and ensured compliance with local regulations in the countries the Group operates in, which are in line with the Group's Corporate Governance Framework.
- Reviewed, developed and approved the policies related to Corporate Governance and charters of the Board of Directors and its committees at the Group level in order to be commensurate with regulations issued from Supervisory Authorities, the Group's organizational structure, and to keep up with applicable international and leading Corporate Governance practices.
- Conducted self-assessment on Corporate Governance implementation at Group level and identified the areas that need to be developed.
- Reviewed the results of the annual independent evaluation of the Corporate Governance Framework conducted by Group Internal Audit, which highlighted the areas of the Framework that require improvement.
- Reviewed the results of the annual independent evaluation of the Internal Control Review for the Corporate Governance Framework, conducted by the external auditors
- Supervised the Corporate Governance offices and units in the Bank's subsidiaries, followed up their progress through periodic reports presented to the Board Corporate Governance Committee for review and discussion, and subsequently to the Board of Directors.
- Approved Bank's representatives in Subsidiaries, Associate Companies, External Committees and others
- Reviewed the results of bank's compliance level with Capital Markets Authority instructions concerning the adequacy of information technology systems related to Custodian activity that was and conducted by independent external auditor.
- Reviewed the updated regulations, legislations and provisions related to Bank's activities issued by Central Bank of Kuwait, Capital Markets Authority and other regulatory authorities in the countries in which Bank's subsidiaries and branches operates.
- Approved cash dividend distribution of 25% (twenty five per cent) of the nominal value of the share (twenty five fils per share)
- Approved the increase of NBK issued and paid up capital by 5% (five per cent) as bonus shares.
- Approved semi-Annual Cash dividends distributions at the rate of 10% of the nominal value of the share.
- Periodically reviewed and updated Bank's organizational structure.
- Approved the training plan for the year 2024 for the Board members, which covered special topics regarding Anti Financial Crime, Risk Management, Corporate Governance, Audit, Sustainability and Artificial Intelligence.
- Reviewed the agenda of Bank's General Assembly meeting, which convened on 18/3/2023.
- Approved the merger of WFBC and NBK Capital investment to become one Company under the name of NBK Capital investment.
- Approved strategy and framework of Sustainability .

Board Committees' Key Achievements

Corporate Governance Committee

The Committee met twice during the year and the following key duties were performed:

- Reviewed the implementation of Corporate Governance of NBK Group and its subsidiaries and overseas branches, while providing continuous support to subsidiaries.
- Reviewed the Board and its sub-Committee's charters according to supervisory regulations issued in this regard and made recommendations to the Board of Directors.
- Reviewed and discussed the results of the internal audit report on the annual evaluation of the Corporate Governance Framework, and the level of compliance with regulators.
- Reviewed and discussed the report and the results of the evaluation of internal control systems, and the adequacy of implementing the rules of corporate governance at Group level.
- Reviewed and updated Corporate Governance policies, in line with regulatory instructions, leading practices, and made recommendations to the Board for approval.
- Reviewed the related parties' transactions report, the conflict of interest report, the whis-tleblowing cases, and discussed the effectiveness of the existing mechanisms.
- Supervised the progress of Corporate Governance implementation at Group level.
- Reviewed and discussed the annual compliance report on the adequacy of the Corporate Governance implementation at Group level.
- Reviewed the disclosures related to Corporate Governance, which are presented in the Group annual report.
- Reviewed the new instructions issued by the regulatory authorities in the countries where our subsidiaries are located and the procedures taken to comply with these instructions.
- Reviewed Semi-annual Assessment of the risks associated with the group's structure.

Nomination and Remuneration Committee

The Committee met three (3) times during the year and the following key duties were performed:

- Supervised the process of the annual assessment of the Board of Directors' perfor-mance for the Board, its committees, and the self-assessment of each member of the Board of Directors for the year 2022.
- Reviewed the proposed training plan for the year 2024 for the Board members, which covered special topics regarding Anti Financial Crime, Corporate Governance, Risk Man-agement, Audit, Sustainability and Artificial Intelligence, and made recommendations to the Board of Directors.
- Reviewed the Internal Audit report on Corporate Governance and the independent evaluation conducted on the Bank's Remuneration framework.
- Reviewed the remuneration policy and presented it for approval to the Board of Directors.
- Reviewed and approved the rewards and incentives for 2023 based on the key perfor-mance indicators and key risk indicators, and discussed claw back cases for 2023 and made recommendations to the Board.
- Reviewed the links between remuneration and the Group's long-term objectives.
- Reviewed and discussed the succession plan prepared by Group Human Resources and recommended it to the Board for approval.
- Reviewed and discussed the phantom shares plan for key personnel, and made recommendations to the Board of Directors.
- Reviewed and discussed the latest developments in the banking industry, the related reports in this regard, and the latest related regulatory requirements.
- Reviewed the disclosures related to Remunerations presented in the Group annual report of 2023.
- Reviewed the committee's charter and made recommendations to Board of Directors.
- Reviewed last updates regarding BOD membership in Bank's subsidiaries
- Assured the independency of Group Risk Management, Group Compliance & Governance and Group Internal Audit.

Audit Committee

The Committee met ten (10) times during the year and the following key duties were performed:

- Reviewed and approved the Group's internal audit annual plan for 2023 based on the risk assessment and audit priorities. Also reviewed the updated internal audit policy and procedures and presented them to the Board for approval.
- Coordinated with external auditors and reviewed the interim and annual financial statements of the Group, and dividends distribution and submitted recommendations to the Board of Directors.
- Reviewed and discussed the periodical Internal Audit reports and the attached reports.
- Reviewed and discussed Group internal audit summary and considered what has been achieved in the internal audit plan, in comparison to performance during the previous year
- Reviewed and approved the scope of the external auditor's plan related to Internal Con-trol Review and discussed the results of the report.
- Reviewed the Committee charter and submitted recommendations to the Board of Directors.
- Reviewed the efficiency and independence of the internal audit function, infrastructure and the overall annual assessment of the function's performance with the Group Chief Internal Auditor.
- Discussed internal control aspects related to information technology systems and infor-mation security.
- Provided recommendations related to the external auditors' fees, with respect to the services provided.
- Discussed external audit results related to Group internal audit.
- Reviewed and discussed the internal audit reports for Kuwait, overseas branches and subsidiaries.
- Approved Key performance indicators for Group Chief Internal Auditor

Risk and Compliance Committee

The Committee met eight (8) times during the year and following key duties were performed:

- Reviewed and discussed the strategy and challenges of Risk Management, the set of peri-odic risk management reports at Group level and the key risk indicators
- Reviewed a report on the most important activities and achievements of the Group Risk Management of 2023 and the planned work in 2024.
- Reviewed and discussed the periodic market risk report, Internal Capital Adequacy As-sessment Process ("ICAAP"), liquidity ratios, the stress testing scenarios and the methods with which they dealt at Group level.
- Reviewed and discussed the risk limit ratios, compared the ratios to the Group's approved risk appetite and the exposure levels of countries in which the Group operates, and discussed those ratios and the changes compared to previous periods and credit concentrations for companies , countries and sectors.
- Reviewed updates on overall economic situations and their impact at the Group level
- Reviewed the reports of operational risk, market risk and compliance risk and compliance plan at Group level.
- Reviewed updates regarding AML awareness training to NBK staff.
- Reviewed periodic reports on the information security governance, information systems risks, the results of the internal control systems report on regulatory compliance, anti-fraud , anti-money laundering and financing of terrorism, anti-Financial Crime and compli-ance with regulatory requirements of the Foreign Account Tax Compliance Act -FATCA, at Group level.
- Reviewed and approved Anti-Financial Crime (AFC) Policies and Procedures, AML/CFT Poli-cy, AML Risk Assessment and Anti-Fraud Policy & Procedures, and presented them to the Board for approval.
- Reviewed regulatory compliance remarks at Group and subsidiaries level, through self-evaluation results as well as field visits and review processes.
- Evaluated the Group Chief Risk Officer and Group Chief Compliance & Governance Officer annual performance and determined their remunerations.
- Reviewed and approved the amended Organizational Structures of Group Risk Manage-ment and Group Compliance & Governance and made recommendation to Board for approval.
- Reviewed and approved Group Risk Management and Group Compliance and Governance's policies and procedures to be presented to the Board for approval.
- Reviewed Compliance Plan for the year 2023 for NBK-Kuwait,
- Reviewed Board Risk & Compliance Committee Charter to be presented to the Board for approval.
- Reviewed Group Cybersecurity progress report and its Key Performance Indicators (KPI) for NBK Kuwait and its overseas Branches and subsidiaries, Bank's procedures regarding Cyber-security Risk of Virtual Private Networks (VPN).
- Reviewed a report on the most important activities and achievements of the Group Compliance and Governance for 2023 and the planned work in 2024.
- Reviewed Group Compliance & Governance reports regarding regulatory parties' instructions, local and international regulatory compliance, importance correspondences with Central bank of Kuwait, disclosures to Capital Markets Authority and Boursa Kuwait Compa-ny and updates regarding compliance and governance for local and overseas subsidiaries and overseas branches.
- Approved charter, Framework and establishment of Anti-Fraud Governance Committee, and submitted recommendations to the Board of Directors.

Credit Committee

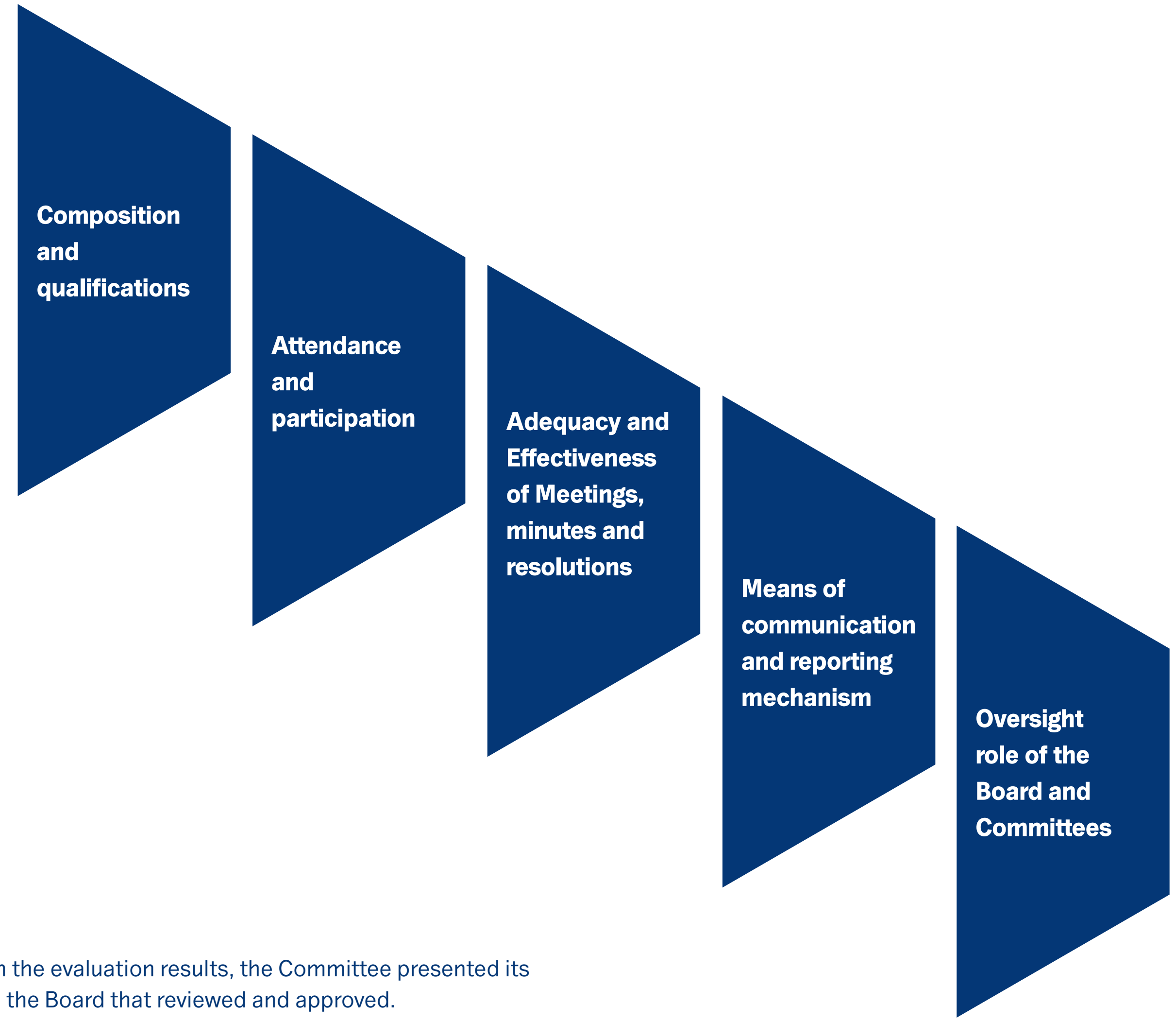
The Committee met twenty three(23) times during the year and the following key duties were performed:

- Reviewed and approved credit proposals within the authority matrix delegated by the Board of Directors.
- Coordinated with the Board Risk Committee to discuss credit risk limits.

Board of Directors Self-Assessment Framework

Annually and under the supervision of the Board of Directors, Board Nomination and Remuneration Committee evaluates the effectiveness of Board members and their participation, whether individually or collectively. This includes an assessment of the Board Committees through the self-assessment methodology, which has been designed and developed to evaluate the effectiveness of each Board member, and determine the aspects of development required, and the necessary training for members.

The following table illustrates the criteria on which the evaluation is based and that are included in the self-evaluation forms:



Based on the evaluation results, the Committee presented its report to the Board that reviewed and approved.

Remuneration Policy and Framework

NBK's remuneration policy is in line with the strategic objectives of the Group, and in particular is designed to attract, retain and motivate high-caliber, professional, skilled and knowledgeable employees, at the same time as promoting sound and sustained profitability and effective risk management.

The Group's financial remuneration framework has been linked with its long-term and short-term performance objectives. The Board-approved Group strategy is transformed into Key Performance Indicators (KPIs) and remuneration is determined based on the achievement of these KPIs towards the overall Group strategy; these include financial and non-financial criteria and (where appropriate) Key Risk Indicators (KRIs).

For the purpose of granting remuneration, the Group has differentiated its staff categories, between "material risk-takers," and Financial and Risk Control functions.

Remuneration for material risk-takers has been linked with the risk limits, which were cascaded as per the approved risk appetite. The Key Performance Indicators for the Financial and Risk Control functions are based on the objectives of the control function itself. Any claw-back to be applied is based on the performance standard of the function.

The Group operates a "total reward" philosophy, considering all components of financial remuneration. The key components are:

- Fixed remuneration (salaries, benefits, etc.)
- Variable remuneration (performance-based remuneration) which includes cash bonus and equity shares (as per Phantom Shares Plan)

The Group ensures there is a suitable balance between fixed and variable remuneration to allow for the possibility of reducing remuneration in the case of adverse financial performance.

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organization) is deferred. The deferment of variable remuneration applies to the Deferred Cash Bonus and Phantom Shares Plan.

The Group applies a deferment approach of up to three years and final vesting of these variable components is subject to continuing employment and the absence of risk materialization. Claw-back applies on the non-vested portions in case risk materializes. The claw-back mechanism is applicable on the Deferred Cash Bonus and Phantom Shares Plan.

The Group's remuneration process is governed by the Board Nomination and Remuneration Committee with the ultimate decisions and responsibilities falling to the Board of Directors.

Remuneration disclosures
Board of Directors' members (Executive member, Non-Executive members and Independent members) receive remuneration amounting to KD 70 thousand each (total KD 770 thousand) for their services in Bank's Board membership. Board of Director's remuneration is subject to approval of shareholders at the Annual General meeting.

The five senior Executives who received the highest remuneration packages in addition to the Group Chief Financial Officer (GCFO, Group Chief Internal Auditor (GCIA) and Group Chief Risk Officer (GCRO) received a compensation aggregating KD 11,025 thousand for the year ended December 2023

The following table details the remuneration paid (KD) to staff categories:

			Variable Remuneration				KD '000
Employee Categories	Number of Employees	Fixed Remuneration	Cash	Phantom Shares Plan	Deferred	Other Performance Incentives	Total
Senior Management	44	7,564	10,848	1,949	-	335	20,696
Material Risk Takers	47	7,039	10,132	1,777	-	867	19,815
Financial and Risk Control	19	1,862	795	425	4	-	3,086

For disclosure purposes

- Senior Management: includes all staff above and equivalent to the position of Deputy General Manager for all business units, excluding Financial and Risk Control functions
- Material Risk-Takers: includes Group Chief Executive Officer and his deputy, Chief Executive Officer (Kuwait) and his deputy, and the heads of business functions and their deputies
- Financial & Risk Control Functions: includes heads of Control functions (Financial Control, Risk Management and Compliance, Internal Audit and Anti-Money Laundering and Combating Financing Terrorism Unit), and their deputies.

Internal Control Adequacy Report

Board statement on adequacy of internal control systems

The Board strives consistently to ensure the adequacy and efficiency of the control systems required to protect the Group's operations, whilst ensuring compliance with such internal controls and establishing that those controls provide the necessary protection for the Group against risks from within or outside the Group. The Board ensures an effective internal control systems and Risk Management and Compliance functions are in place with sufficient authority, independence, resources and access to the business lines. The Board regards the Internal Audit function and external audit activities as integral parts of key control tools for independent review of information reported by Executive Management to the Board.

The Board Audit Committee is responsible for the oversight of the Group's internal control framework along with the selection and rotation of external auditors in compliance with regulatory requirements.

The Board has been provided with the results of assessments on the existing internal control systems from Risk Management and Compliance, Internal Audit and an independent external party. The Board believes that the existing internal control systems adopted and used at NBK Group are satisfactory and adequate.

Review of the internal control systems by an independent third party

An Internal Control Review (ICR) of NBK is conducted annually by an external audit firm in accordance with CBK requirements. The ICR examines accounting and other records, and evaluates the internal control systems with regard, but not limited, to Corporate Governance, Financial Control, Consumer Banking, Corporate and Private Banking, International Banking Group, Treasury, Regulatory Compliance, Operations and Information Technology, Risk Management, Human Resources, Administration, Internal Audit, Anti-Money Laundering and Counter terrorism Financing, Legal Affairs Engineering, impairment Compliance and Regulatory Reporting.

A summary of the ICR report for the year ended 31 December 2022 was presented to the Board of Directors during 2023. The report did not highlight any significant issues.

Internal Control Review by External Party

Private and confidential
The Board of Directors
National Bank of Kuwait S.A.K.
State of Kuwait
22 June 2023

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 28 February 2023, we have examined the accounting and other records and internal control systems of National Bank of Kuwait S.A.K.P ("the Bank" or "NBK"), its branches in Kingdom of Bahrain, Kingdom of Saudi Arabia and United Arab Emirates ("UAE") and its subsidiaries National Bank of Kuwait (Lebanon) SAL., National Bank of Kuwait – Egypt S.A.E. ("NBK – Egypt")., National Bank of Kuwait France SA, and National Bank of Kuwait (International) PLC (together referred to as "the Group"), which were in existence during the year ended 31 December 2022. We covered the following areas of the Group

- Corporate Governance;
- Risk Management;
- Anti-Money Laundering
- Consumer Banking
- Corporate and Private Banking
- Treasury;
- Group Investment
- Human Resources;
- Central Processing & Fund Transfer;
- Financial Control;
- Regulatory Compliance;
- Administration;
- Internal Audit;
- Operations & Information Technology;
- Legal;
- Customer Complaints;
- Financial Securities (limited to Kuwait only);
- Investors Relations & Corporate Communications;
- Confidentiality of Customer Information;
- Anti-Fraud, Bribery and Corruption;
- Engineering
- International Banking; and
- Impairment Compliance and Regulatory Reporting.

Our examination has been carried out with regard to the requirements contained in the manual of general directives concerning Internal Control reviews issued by the Central Bank of Kuwait ('the CBK") on 14 November 1996, CBK instructions dated 20 June 2012 concerning Corporate Governance rules and systems at Kuwaiti Banks and its subsequent amendments dated 10 September 2019, CBK instruction dated 14 May 2019 concerning Combating Money Laundering Operations and Financing of Terrorism, CBK instruction dated 9 February 2012 on maintenance of confidential information and data related to customer information and international standards on assurance engagement 3000. The New York, Singapore and Shanghai branches of National Bank of Kuwait SAKP, NBK Banque Privée (Suisse) S.A., Watani Investment Company K.S.C.C. and Watani Financial Brokerage Company K.S.C.C are subject to evaluation of internal controls and annual supervision by the respective local regulators. A summary of the respective internal control reports is provided in Appendix IV of this report.As Board of Directors of National Bank of Kuwait, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems. The objective is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that banking risks are properly monitored and evaluated, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in any accounting and internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.In our opinion, having regard to the nature and size of the group's operations, during the year ended 31 December 2022, the accounting and other records and internal controls systems, in the areas examined by us, were established and maintained satisfactorily in accordance with the requirements of the Manual of General Directives concerning Internal Control Reviews issued by the Central Bank of Kuwait on 14 November 1996, CBK instructions dated 20 June 2012 concerning Corporate Governance Rules and Systems at Kuwaiti Banks and its subsequent amendments dated 10 September 2019 and the CBK instructions dated 14 May 2019 concerning Combating Money Laudering Operations and Financing of Terrorism, and CBK instruction dated 9 February 2012 on maintenance of confidential information and data related to the customer information with the exception of the matters set out in the report.

Furthermore, the Bank has established a process of regular follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the control weaknesses and gaps identified during the course of the Internal Control Review.

R. Rasheed M. Al-QenaeLicense No. 130
Of KPMG Al-Qenae & PartnersMember firm of KPMG International

Ethics and Professional Conduct

Values and ethics
NBK Group continues to apply Corporate Governance values as fundamental principles and an integral part of the culture of the Group. During the year, the Group worked on a number of initiatives that will strengthen the commitment to the values of Corporate Governance and raise the level of awareness of those values at all levels of the Group and related bodies.
NBK Group is committed to achieving the highest levels of governance and has established those values within a number of pillars, which emerged through a set of policies and procedures set forth as follows:

Ethics code
The ethics code is considered one of the most important components of the Corporate Governance framework and is promoted through the code of conduct, which is adopted by the Board of Directors and Executive Management in daily interactions with employees, customers and all of the Group's stakeholders.

This code is subject to periodic review, to keep it up to date with all the latest developments and enhancements in the areas of governance and control of professional conduct. The Board of Directors also oversees the efficient implementation of the charter through the audit and internal control functions, to identify and remedy any gaps.

Conflict of interest
The Group ensures that in all stages of banking procedures for its customers, it treats all customers fairly, equally and honestly, to achieve the maximum level of transparency and objectivity, through applying a conflict of interest policy. The Group, under the supervision of the Board, has reviewed the Related Parties Transactions Policy, which is compatible with the nature of the Group's business regulatory updates in the markets in which it operates. In addition, it has adopted a set of organized procedural models for cases of disclosure of potential conflicts of interest and a mechanism to deal with them.

Potential cases of conflicts of interests and related parties transactions are subject to independent review by Group Internal Audit.

Confidentiality
The Board, Executive Management and employees ensure that the Group maintains the confidentiality of information relating to its stakeholders, in accordance with the rules and regulations issued by the Central Bank of Kuwait and other regulatory bodies.

During 2023, the Group continued to apply measures to maintain the confidentiality of information in accordance with policies and procedures and internal control systems, which require the preservation of confidentiality.

Whistleblowing policy
The Group has adopted a whistleblowing policy that encourages openness and trust among its employees. This helps employees report any complaint, whether relating to bad behavior or illegal or unprofessional actions. The complaint is directly made to the Chairman of the Board and the information received remains confidential and, if necessary, saved anonymously, to provide protection to the employee. This mechanism is subject to review by Group Internal Audit.

Stakeholder's Rights

The Group has continued to implement a well-defined process in managing transparency, communication and open dialogue with its stakeholders. These measures include the protocols, which will be followed in communicating with stakeholders and the degree of information which can be disclosed.

Shareholders

NBK Group promotes and maintains an open and transparent channel of communication with its shareholders, which enables them to understand Group business, its financial condition, and operating performance and trends. The Group has also developed a section on its website that provides detailed reports to shareholders on Corporate Governance and other important information relating to the disclosure of financial and non-financial information.

The Public Institution for Social Security owns 6% of NBK Capital as of 31st December 2023.

Investor Relations

NBK Group promotes open and transparent dialogue with both its institutional and private investors. The Investor Relations function serves as the primary contact with shareholders, investors and financial analysts. The Group also publishes information for investors and stakeholders on a regular basis, through its website as well as other media.

Customers

The Group has ensured, since inception that it has established professional and behavioral rules, and provides qualified staff who can optimally serve customers. In addition, the Group continuously ensures that it follows regulatory instructions and is a pioneer in international practices in customer service and protection. NBK has taken the necessary steps to implement the terms of the consumer protection instructions recently issued by the Central Bank of Kuwait, by reviewing and updating a policy approved by the Board to enhance the understanding of transparency and disclosure in banking transactions provided by the Bank.

Employees

The Group protects and abides by the rights provided to employees, which include, but are not limited to, the following:

- Transparent remuneration and compensation structure
- A transparent working environment
- Contributing to employee talent-management schemes
- Access to the whistleblowing policy

Community (Corporate Social Responsibility)

The Group has maintained its progress in projects relating to Corporate Social Responsibility, to foster a sustainable economic and social environment in the community, and regards this as a priority for the Group. The Group discloses its relevant social activities on its website and in the form of a separate "Sustainability Report 2023", published as an independent report.

Group Risk Management and Group Compliance and Governance

Group risk Management and Group Compliance and Governance are a key component of banks' second line of defense, for monitoring and reporting risks-related practices and managing compliance risks. They function with direct reporting to Board Risk and Compliance Committee, that responsible for identifying and assessing key risks, measuring the levels of Bank's risk exposure, monitoring exposure levels in light of the risk appetite, non-compliance risk with applicable laws and regulations, determining capital requirements on a regular basis following up and evaluating decisions relating to certain risks.

Group Risk Management

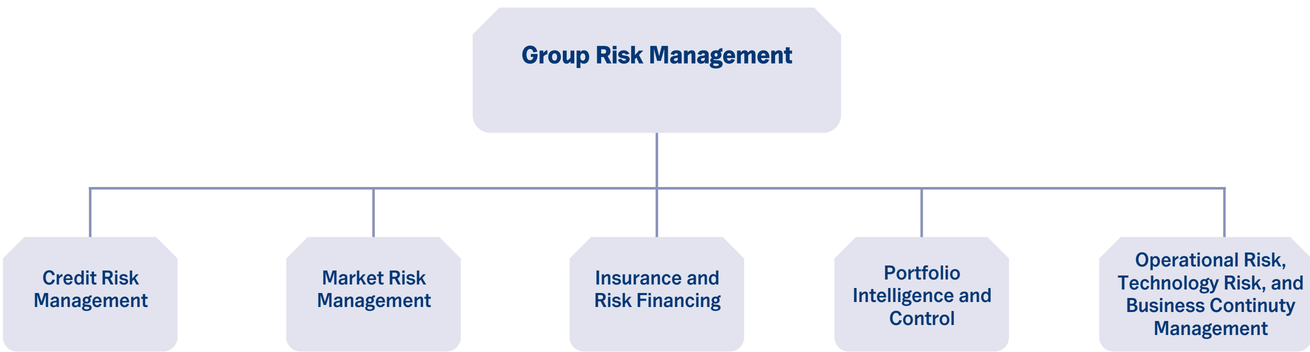
NBK Group's risk management framework is integral to its operations and culture and it seeks to manage risk in a structured, systematic manner through a global risk policy, which embeds comprehensive risk management into the organizational structure, risk measurement and monitoring processes. Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board. This is managed through the Board Risk and Compliance Committee (the "BRCC") and the Group Executive Committee (the "EC"). These committees ensure that risk-taking authority and policies are effectively communicated from the Board to the relevant business units. The Group's risk management, compliance management and internal audit functions assist executive management in controlling and actively managing the Group's overall risk profile.

The key features of the Group's comprehensive risk management policy are:

- The Board provides overall risk management direction and oversight;
- The Group's risk appetite is reviewed by the BRCC and ultimately approved by the Board;
- Risk management focused on compliance with applicable laws, regulations and internal policies is intrinsically embedded in the Group's process and is a core competency of all its employees;
- The Group manages its credit, market, liquidity and operational risks in a coordinated manner within the organization; and
- The Group internal audit provides independent validation of the adequacy and effectiveness of the risk management framework on a Group level.

Group Risk Management structure

The structure of the Risk Management function consists of the following departments:



The Group Risk Management, which headed by the Group Chief Risk Officer ("GCRO"), reports directly to the BRCC and is responsible for:

- identifying and assessing the key risks faced by the Group;
- measuring the Group's exposure to those risks;
- monitoring this exposure in light of the Group's risk appetite, as approved by the Board;
- determining the Group's corresponding capital needs on an ongoing basis;
- monitoring and assessing major decisions related to risk-taking; and
- Following up and evaluating decisions related to certain risks.

The risk management function assists senior management in controlling and actively managing the Group's overall risks and risk profile. The function also ensures that:

- The Group's overall business strategy is consistent with the risk appetite approved by the Board of Directors and allocated by the EC;
- Risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- Appropriate risk management architecture and systems are developed and implemented; and
- Risks and limits of the portfolio are monitored throughout the Group, including at appropriate "regional" levels.

NBK Group and Group Risk Management regularly assess the adequacy and effectiveness of the risk management framework in light of the changing risk environment.

Group Compliance and Governance

The Group Compliance and Governance is a part of NBK Group's culture of complying and operating in accordance to regulatory and legislative frameworks, where Group Compliance and Governance attempts to enhance sound practices and ensure that Bank does not violate any requirements set by legislators and regulatory Bodies in either Kuwait or other countries where Group operates.

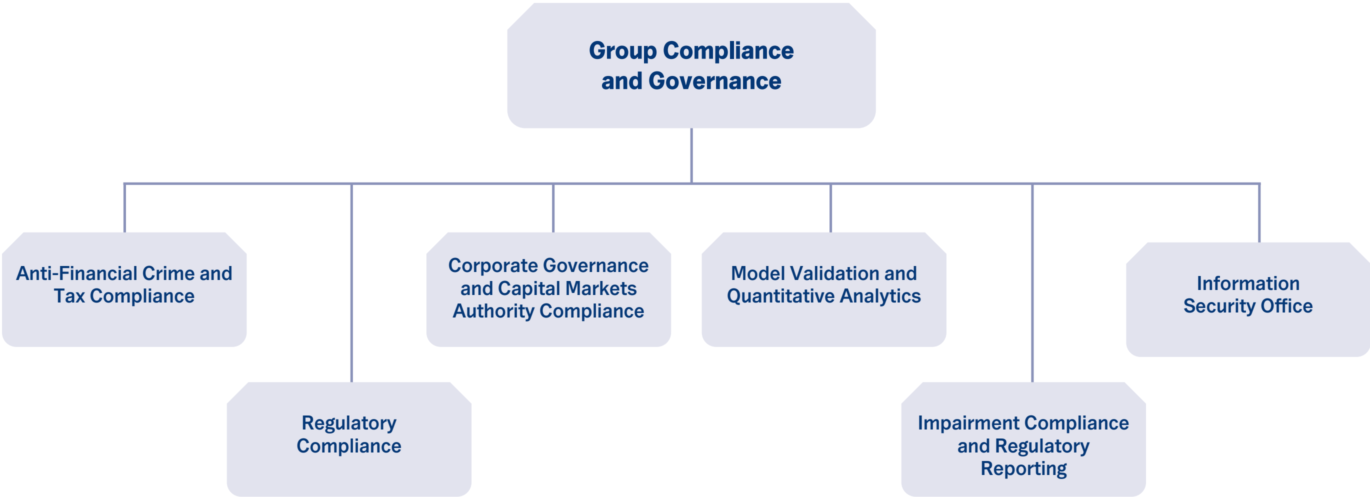
The Compliance and Governance function is a key component of the Bank's second line of defense for managing compliance risks, the Group supervises and participates in placing internal procedures in conformity with regulations. Its main role is to support the Bank and its Management in managing the compliance risks, embedding and improving the compliance arrangements in all levels and structures of the Bank, in order to ensure that the bank operates with integrity and adheres to applicable laws, regulations and internal policies.

The key features of the Group's comprehensive policy of managing compliance risks and embedding sound governance principles are:

- The Board provides overall guidance to implement compliance culture and sound corporate governance principles across the bank;
- The Group's compliance and governance policies and procedures are reviewed by the Board Risk and Compliance Committee and ultimately approved by the Board;
- Comprehensive reports concerning level of compliance and associated risks are presented to Board and Board Risk and Compliance committee;
- The Group coordinated and work with Bank's Management under the supervision of Board of directors.; and
- The Group internal audit provides independent validation of the adequacy and effectiveness of the Group Compliance and Governance framework on a Group-wide basis.

Group Compliance and Governance Structure

The structure of the Group Compliance & Governance consists of the following departments:



Group Compliance and Governance headed by Group Chief Compliance and Governance Officer ("GCC&GO") and reports directly to the Board Risk and Compliance Committee ("BRCC").

Group Compliance and Governance has the following objectives and responsibilities:

- Identify, assess, monitor and report on the compliance risks faced by NBK Group.
- Review the compliance risk processes that are in place to anticipate and effectively manage the impact of regulatory change on the Group's operations.
- Ensure NBK Group and each subsidiary and branch in every jurisdiction of operation abides by all relevant laws and regulations applicable to each of them.
- Assess/Review the implementation of compliance procedures needed to verify compliance with the laws, regulations, procedures and directives issued by Central Bank of Kuwait, Capital Markets Authority and relevant Regulatory Bodies.
- Ensure the Bank's compliance with the regulations related to Anti-Financial Crime and the Foreign Account Tax Compliance Act (FATCA), Common Reporting Standard (CRS) and other similar applicable regulations.
- Ensure sound Corporate Governance implementation across the Group.

I. Capital Adequacy

Capital adequacy, financial leverage and the use of various levels of Regulatory Capital are monitored regularly by the Group's Management and are also governed by guidelines of the Basel Committee on Banking Supervision as adopted by the Central Bank of Kuwait (CBK) for licensed banks in Kuwait.

The CBK's Basel III framework consists of three pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risk under the "Standardised Approach";
- Pillar 2 relates to the supervisory review process and emphasises the importance of the Internal Capital Adequacy Assessment Process (ICAAP) performed by banks; and
- Pillar 3 aims to complement the capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

The Basel III minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures. There are also buffer requirements in the form of a capital conservation buffer, a countercyclical capital buffer, and an additional surcharge for banks designated as domestic systemically- important.

A key objective of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with externally-imposed capital requirements.

1. Regulatory Scope of Consolidation

The core activities of the Group are retail, corporate and private banking, investment banking, and asset wealth management & brokerage services. For further details on the Group's activities, please refer to note 3 of the Group's consolidated financial statements.

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, save as otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2.1 and 2.3 of the Group's consolidated financial statement for the year ended 31st December 2023.

The principal operating subsidiaries of the Group are presented in note 24 of the Group's consolidated financial statements. All subsidiaries have been fully consolidated under the regulatory scope of consolidation for Regulatory Capital calculations (refer note 29 of the Group's consolidated financial statements for consolidation treatment for the Islamic Banking subsidiaries of the Group).

Significant investments (as defined) in Banking, Financial and Insurance entities which are outside the scope of regulatory consolidation are required to be subject to the threshold treatment prescribed under the CBK Basel III rules and are risk-weighted and/or deducted against equity.

- All the significant investments in Banking and Financial entities classified as Associates of the Group's consolidated financial statements have been subject to the applicable threshold treatment and risk-weighted as prescribed.
- Other significant investments in Banking and Financial entities classified as equities have been subject to the applicable threshold treatment and risk-weighted as prescribed.

'Minority' Investments in Banking, Financial and Insurance entities classified as equities have been subject to the applicable threshold treatment and risk-weighted as required.

2. Capital structure

The Group's Regulatory Capital comprises:

a) Common Equity Tier 1 (CET1) capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves, retained earnings and eligible non-controlling interests (net of Regulatory adjustments),

b) Additional Tier 1 (AT1) capital which consists of Perpetual Tier 1 Capital Securities classified as Equity (note 21 of the Group's consolidated financial statements), eligible portion of AT1 instruments issued by subsidiaries and held by third parties and certain additional eligible portion of non-controlling interests, and

c) Tier 2 (T2) capital which consists of Subordinated Tier 2 Bonds classified as Debt (note 17 of the Group's consolidated financial statements), the allowed portions of general provisions and certain additional eligible non-controlling interests.

The Bank's share capital as at 31 December 2023 comprised 7,929,945,620 issued and fully-paid-up equity shares (2022: 7,552,329,162)

The Regulatory Capital in KD Thousands for the Group is detailed below:

Table 1

Regulatory Capital	**31 December 2023**	**31 December 2022**
Common Equity Tier 1	3,442,577	3,170,120
Additional Tier 1 Capital	531,776	527,411
Tier 1 Capital	3,974,353	3,697,531
Tier 2 Capital	597,889	573,564
Total Regulatory Capital	4,572,242	4,271,095

3. Capital Adequacy Ratio

The Group ensures adherence to CBK's requirements on Group-wide and stand-alone Capital Adequacy by regular monitoring. The Group's capital forecasting process ensures pro-active actions, and plans to ensure a sufficient capital buffer above minimum levels are in place at all times. This process is supported by the use of proprietary capital-planning methodology which takes into consideration Regulatory Capital requirements, rating agency views, stress-testing and bottom-up views of business plans. These views then cascade into considerations on what capital level is required.

In addition each banking subsidiary of the Group is directly regulated by its local banking supervisor which sets and monitors its capital adequacy requirements as per the jurisdiction's requirements and ensures its compliance therewith.

In response to the Corona Virus Disease pandemic crisis, the CBK implemented various measures targeted at reinforcing the banking sector including revising the Capital Conservation Buffer requirements of 2.5% of risk-weighted assets in the form of CET1 minimum capital requirement to:

1. Nil from 1st April 2020 to 31st December 2021.
2. 1% from 1st January 2022 to 31st December 2022.
3. Full 2.5% from1st January 2023 onwards.

Pursuant to the consumer loan deferment program of 2020, the CBK has allowed, as part of Corona Virus Disease ("COVID-19") support measures, the modification loss on deferment of loan instalments of KD 130,499 thousand charged directly to Retained Earnings in June 2020, to be deferred and deducted from Regulatory Capital equally over 4 years starting 2021, i.e., KD 32,625 thousand per year. The remaining deferred amount to be deducted from Regulatory Capital as of 31 December 2023 is KD 32,625 thousand.

The Minimum Capital requirements (MCR) and associated levels of Regulatory Capital expressed as a percentage of risk-weighted assets for NBK Group are:

Table 2

Regulatory Capital Levels	**31 December 2023**	**31 December 2022**
Common Equity Tier 1	7.0%	7.0%
Capital Conservation Buffer*	2.5%	1%
Domestic Systemically-Important Bank (D-SIB) Buffer	2.0%	2.0%
Common Equity Tier 1 (including Buffers)	11.5%	10.0%
Additional Tier 1 Capital	1.5%	1.5%
Tier 1 Capital	13.0%	11.5%
Tier 2 Capital	2.0%	2.0%
Total Regulatory Capital	15.0%	13.5%

* CET1 Capital Conservation Buffer that was reduced CBK due to Corona Virus Disease has been reinstated fully from 1st January 2023.

The Group, having been designated as a Domestic Systemically-Important Bank (D-SIB), is required to maintain an additional minimum capital of 2%. Countercyclical Capital Buffer has not been required for the period ended 31 December 2023 in the MCR (nor at 2022).

The Capital Adequacy Ratios for the Group at consolidated level are as follows:

Table 3

	CET1	**Tier1**	**Total**
Group for 31 December 2023	13.0%	15.0%	17.3%
Group for 31st December 2022	12.9%	15.0%	17.4%

The Capital Ratios of the banking subsidiaries based on their latest submissions (filed or approved, as applicable, under their respective jurisdictions and regimes) were as follows:

Table 4

	31 December 2023		
	CET1	**Tier1**	**Total**
NBK (International) plc [United Kingdom]	19.70%	19.70%	19.70%
National Bank of Kuwait France SA [France]	26.69%	26.69%	26.69%
NBK (Lebanon) S.A.L. [Lebanon]	3.65%	4.88%	5.06%
NBK Banque Privee (Suisse) S.A. [Switzerland]	35.90%	52.05%	52.05%
Boubyan Bank K.S.C.P. [Kuwait]	14.27%	16.72%	17.97%
Credit Bank of Iraq S.A. [Iraq]	95.74%	95.74%	95.78%
NBK Egypt S.A.E. [Egypt]	13.82%	17.19%	19.23%

	31 December 2022		
	CET1	Tier1	Total
NBK (International) plc [United Kingdom]	21.26%	21.26%	21.26%
National Bank of Kuwait France SA [France]	55.53%	55.53%	55.53%
NBK (Lebanon) S.A.L. [Lebanon]	31.15%	43.07%	43.21%
NBK Banque Privee (Suisse) S.A. [Switzerland]	38.93%	56.43%	56.43%
Boubyan Bank K.S.C.P. [Kuwait]	15.22%	18.19%	19.44%
Credit Bank of Iraq S.A. [Iraq]	12.00%	486.00%	492.00%
NBK Egypt S.A.E. [Egypt]	14.99%	17.50%	19.95%

All the banking subsidiaries within the Group are in compliance with the minimum capital requirements as applicable under their respective jurisdictions and have not reported any capital deficiencies. In general, the restrictions on transfer of funds or Regulatory Capital within the Group are related to constraints that are imposed on entities by local regulators or tax constraints.

4. Profile of risk-weighted assets and capital charge

The Group's risk-weighted capital requirements for credit, market and operational risks are shown below. The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. and its consolidated banking subsidiary are risk-weighted, and capital charge is calculated, in accordance with CBK regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to CBK. The Capital charge in section 4.1, 4.2 and 4.3 below represent the minimum requirement for Kuwait Banking sector at 13 % (2022: 11.5% and excluding D-SIB Buffer of 2% for NBK Group).

4.1. Credit risk:

The total capital charge in respect of credit risk as at 31 December 2023 was KD 3,141,101 thousand (2022: KD 2,586,984 thousand) as detailed below:

Table 5						KD 000s
	31 December 2023			31 December 2022		
	Gross credit exposure	Risk-weighted assets	Capital charge	Gross credit exposure	Risk-weighted assets	Capital charge
Cash	184,832	-	-	244,199	-	-
Claims on sovereigns	7,774,130	1,096,919	142,599	8,253,189	1,029,571	118,401
Claims on International Organisations	153,308	-	-	122,546	-	-
Claims on public sector entities	1,675,638	351,726	45,724	1,595,886	262,947	30,239
Claims on multilateral development banks	248,550	35,420	4,605	92,728	24,513	2,819
Claims on banks	5,738,584	1,619,110	210,484	5,903,570	1,654,057	190,217
Claims on corporates	18,209,980	13,438,284	1,746,977	16,352,030	11,929,297	1,371,869
Regulatory retail exposure	7,648,318	6,663,678	866,278	7,592,958	6,644,931	764,167
Past due exposures	161,944	134,775	17,521	151,717	126,463	14,543
Other exposures	1,385,833	822,407	106,913	1,249,508	823,736	94,729
Total	**43,181,117**	**24,162,319**	**3,141,101**	41,558,331	22,495,515	2,586,984

"Other exposures" above includes an amount of KD 351,313 thousand negative (2022: KD 405,862 thousand negative) representing that amount of general provision in excess of a maximum of 1.25% of Credit risk-weighted assets which is allowed in arriving at Tier 2 capital.

The Group's figures relating to exposures and risk-weighted assets have been classified to provide a meaningful representation of the standard portfolio asset classes.

4.2. Market risk:

The total capital charge at 13% (2022: 11.5%) in respect of market risk was KD 55,171 thousand (2022: KD 46,205 thousand) as detailed below:

Table 6		KD 000's
	31 December 2023	31st December 2022
Interest rate risk	1,403	1,186
Foreign exchange risk	53,768	45,019
Total	**55,171**	46,205

4.3. Operational risk:

The total capital charge at 13% (2022: 11.5%) in respect of operational risk was KD 244,784 thousand (2022: KD 192,528 thousand). This capital charge was computed by categorising the Group's activities into 8 business lines (as defined in the CBK Basel III framework) and multiplying the business line's three-year average gross income by a pre-defined beta factor.

4.4. Domestic Systemically-Important Bank (D-SIB):

The additional capital requirement in respect of the Group having been designated as a Domestic Systemically-Important Bank (D-SIB) of 2% as at 31 December 2023 amounts to KD 529,393 thousand (2022: KD 491,429 thousand)

II. Risk management

In common with other financial institutions, risk, including credit risk, market risk, liquidity risk, Information Technology (IT), operational and environmental, social and governance (ESG) risks, is inherent in the Group's activities. The complexity in the Group's business operations and diversity of geographical locations require efficient and timely identification, measurement, aggregation and management of risks and efficient allocation of capital towards achieving the ultimate objective of protecting the Group's asset values and income streams in order to protect the interests of its shareholders and external fund providers, increase shareholder value and achieve a return on equity that is commensurate with the risks assumed. Management of these inherent risks is critical to ensuring the Group's financial soundness and profitability.

The Group's risk management framework is integral to its operations and culture and it seeks to manage risk in a structured, systematic manner through a global risk policy, which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes.

Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board of Directors. This is managed through the Board Risk & Compliance Committee (the "BRCC") and the Group Executive Committee (the "EC"), which ensure that risk-taking authority and policies are effectively communicated from the Board to the appropriate business units. The Group risk management, Group compliance and Governance , and Group internal audit functions assist Executive Management in controlling and actively managing the Group's overall risk profile.

The key features of the Group's comprehensive risk management policy are:

- the Board provides overall risk management direction and oversight;
- the Group's risk appetite is reviewed by the BRCC and ultimately approved by the Board;
- risk management is embedded in the Group as an intrinsic process and is a core competency of all its employees;
- the Group manages its credit, market, liquidity, IT and operational risk in a co-ordinated manner within the organisation; and
- the Group's internal audit function reports to the Board Audit Committee (the "BAC") and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Group-wide basis.

The function also ensures that:

- The Group's overall business strategy is consistent with its risk appetite approved by the Board and allocated by the Executive Committee.
- Risk policies, procedures and methodologies are consistent with the Group's risk appetite.
- Appropriate risk management architecture and systems are developed and implemented; and
- Risks and limits of the portfolio are monitored throughout the Group, including at appropriate "regional" levels.

The Group regularly assesses the adequacy and effectiveness of its risk management framework in light of the changing risk environment.

1. Risk Management Strategy

The key elements of the Board-approved risk strategy are:

- maintaining stability and business continuity during stress situations;
- ensuring effective and adequate compliance with Regulatory Capital requirements and internal capital targets in keeping with the Group's strategy;
- developing the Group's IT infrastructure and using modern methods to raise the professional level and levels of experience of human resources;
- effective risk planning through an appropriate risk appetite; and
- performing stress tests consistently to assess the impact on the Group's capital requirements, capital base and liquidity position.

2. Risk Appetite

The Group's risk appetite defines the maximum limit of risk that the Group is willing to accept in relevant business categories in order to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives. Any risk which breaches the Group's stated risk appetite must be mitigated as a matter of priority to within acceptable levels.

- The risk appetite is annually reviewed and presented by the BRCC to the Board for final approval. This ensures the risk appetite statements are consistent with the Group's strategy and business environment. Through the risk appetite statements, the Board communicates to Management the acceptable level of risk for the Group, determined in a manner which meets the objectives of shareholders, depositors and regulators. This ensures Risk Appetite remains aligned to the Group's strategic objectives, expectations of Regulators and stakeholders including clients, investors, and financial markets, and remains fit for purpose.
- The Group risk management and Group Compliance & Governance functions aim to identify early warnings of risk limit and risk appetite breaches, and are responsible for notifying them to the BRCC and the Board.

3. Scope and nature of risk reporting tools

The Group's risk management framework enables the Group to identify, assess, limit and monitor risks using a comprehensive range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in commercial and consumer lending and other asset exposures, such as collateral coverage ratio, limit utilisation, past-due alerts, etc.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposure to losses due to extreme movements in market prices or rates.

The Group augments its overall framework for governance and capital planning and management by undertaking an ICAAP, which includes "scenario testing" at periodic, regular intervals. Amongst the key objectives of the ICAAP is to quantify potential inherent risks which the Group faces not covered under Pillar 1. In line with the guidelines from the Basel Committee and CBK, key principles of the Group's ICAAP include:

- Responsibilities of the Board and Senior Management.
- Sound capital management.
- Comprehensive assessment of Pillar II risks, e.g., Credit (sector, name, and geographic concentration), residual credit risk, residual market risk, Interest Rate Risk in Banking Book (IRRBB), , Liquidity, Legal, Reputational, Strategic Risk, Climate Risk and other specific risks which are not covered in Pillar I, etc.
- Monitoring and reporting.
- Control and review of the process.

4. Risk management processes

Through the Group's risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to Management for appropriate action.

The key risks assumed by the Group in its daily operations are outlined below:

4.1. Credit risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. These risks arise in the Group's normal course of business.

4.1. 1. Credit risk management strategy

The approach to credit risk management is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes, combined with clear policies, limits and approval structures which guide the day-to-day initiation and management of the Group's credit risk exposure. This approach comprises credit limits which are established for all customers after a careful assessment of their creditworthiness.

Standing procedures, outlined in the Group's Credit Policies and Manuals, require that all credit proposals be subjected to detailed screening by the domestic or international credit risk management divisions prior to submission to the appropriate credit committee. Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Board of Directors defines the Group's credit risk management strategy and ratifies significant credit risk policies approved by the Group's Executive Committee to ensure alignment of the Group's exposure with its risk appetite.

4.1.2. Credit risk management structure

Senior management implements the Board of Directors' credit risk strategy and develops policies and procedures for identifying, assessing, monitoring, and controlling credit risk.

The Group's Executive Committee, chaired by the Group Chief Executive Officer (GCEO) and comprising senior executives from the business divisions, meets regularly to review significant credit policies and the Group's corporate and consumer credit portfolios and advises the Board appropriately.

All significant credit policies and amendments to policies are reviewed and approved annually by the Executive Committee and ratified by the Board. Within this framework, limits and approval authorities are exercised by the officers delegated with defined approval authorities.

In compliance with CBK regulations, lending to individual Board Members and related parties is fully secured and monitored by the Senior Credit Committee and the Board Credit Committee (BCC). Furthermore, facilities granted to them are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board of Directors in line with the relative authorities from the Shareholders' General Assembly.

Country limits are determined based on the outlook of economic and political factors, along with the review of reports from recognised and creditable market sources and application of local business and market knowledge. Significant country-limit exposures are subject to periodic approval by the Board of Directors or the Board Credit Committee.

4.1.3. Key features of corporate credit risk management

- Corporate credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer-group.
- Internal credit-rating models are regularly reviewed by the independent Model validation team (under Group Compliance & Governance) in co-ordination with Group Risk Management (GRM), line management and the Executive Committee and continually enhanced in line with industry credit risk management "best practices".

All new proposals, along with reviews of material changes to existing credit facilities, are reviewed and approved by the appropriate credit committee.

The Group has the following hierarchy of credit committees at the Head Office Level:

- Board Credit Committee (BCC), which consists of four Board Members and approves all facilities exceeding the mandate of the other committees;
- Senior Credit Committee (SCC), which consists of the, GCEO, the Deputy GCEO, the CEO Kuwait, the Chief Credit Officer, the Head of Corporate Banking and a number of senior executives in Corporate Banking and is responsible for reviewing, approving or recommending domestic credit proposals that exceed the Management Credit Committee's competence as well as those concerning 'criticised' accounts [which, as part of the Group's overall credit quality monitoring processes, are accounts which, although neither classified as 'past due' nor 'past due and impaired', have experienced difficulties which may cause them to become categorised as 'irregular' accounts (being accounts which are either classified as 'past due' or 'past due and impaired')];
- Management Credit Committee (MCC), which consists of the Head of Corporate Banking, the Deputy Head of Corporate Banking, the Head of Domestic Credit Risk Management and a number of senior executives in Corporate Banking and is responsible for reviewing, approving or recommending domestic credit proposals, except those concerning 'criticised' accounts and those that exceed the Management Credit Committee's competence, which are escalated to the Senior Credit Committee;
- Senior International Credit Committee (SICC), which consists of the, GCEO, the Deputy GCEO and the Group Chief Risk Officer (GCRO) and is responsible for reviewing, approving or recommending all credit proposals originating from the Group's international offices that exceed the Management International Credit Committee's mandate as well as those concerning 'criticised' accounts; and
- Management International Credit Committee (MICC), which consists of the Head of Group Risk Management , the Chief Credit Officer, the CEO International Banking Group and certain Senior members of the International Banking Group and International Credit Risk Management and is responsible for reviewing, approving or recommending all credit proposals originating from the Group's international offices except those concerning 'criticised' accounts, which are escalated to the Senior International Credit Committee.

The credit committees have a set of approval authorities in place as delegated by the Board and which vary by reference to the type of counterparty (for example, sovereign, financial institution and corporate), the counterparty rating (investment grade or speculative) and whether the facility is secured or non-cash, among other factors. Specific approval authorities exist for fully-secured facilities as well as Watch List and 'Criticized' accounts.

In addition, the Group's international offices have their own hierarchy of credit committees.

Credit facility administration is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

4.1.4 Key features of consumer credit risk management

The Group's consumer portfolio credit risks are managed through an independent unit, which is part of the GRM function and works with the consumer banking business. The consumer risk strategy aims to support portfolio growth within acceptable risk appetite thresholds and advises the Consumer Banking Group with prudent lending policies based on portfolio performance. Consumer Credit Risk Management assesses the external environment and focuses on growth for selected segments and

proactively monitors the portfolio. They are aligned with key concepts of risk management, namely governance, control and measurement and reporting.

Consumer Credit Risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers. Within this framework, all credit exposure limits are approved within a defined credit approval authority framework. Policies and procedures specific to each business/product line are approved by the Executive Committee and significant policies are ratified by the Board. Credit loss recognition process/quantification is handled by Consumer Risk Management Unit, within GRM, independent of the business.

4.1.5 Credit review procedures and loan classification

Corporate and SMEs

The Group's policy is to assess the credit risk in commercial banking through a risk-rating process which provides transparency and consistency to enable comparison between obligors. The Group uses an industry-standard risk-rating tool to make these assessments. Under this risk-rating framework, the obligors are rated based on financial and business assessments.

The risk-rating process derives obligor risk-ratings ("**ORRs**") and facility risk-ratings ("**FRRs**"). The rating methodology focuses on factors such as operating performance, liquidity, debt service and capital structure. The ratio analysis includes the assessment of each ratio's trend across multiple periods, in terms of both rate change and the volatility of the trend. It also compares the value of the ratio for the most-recent period with the values of the comparable peer group. Qualitative assessments of the operations, liquidity and capital structure are also included in the assessment. The Group has implemented risk-rating models for commercial, real estate, high-net-worth individuals and project finance facilities. The Group also has an approved framework for FRRs. While the ORR does not take into consideration factors such as the availability of collateral and support, the FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in the FRR.

In cases where the risk-rating tool is not applicable, the Bank assigns a rating based on an internal assessment which is mapped to the relevant external rating scale.

The Group classifies its exposure in accordance with the North American Industry Classification System Code in addition to the classification based on purpose codes as defined by the CBK. This additional classification helps to improve the accuracy of ORRs through peer group analysis in respect of performance and financial indicators and also allows the Group to classify its portfolio into sub-segments which facilitate analysis and improve the management of concentrations.

Credit facilities to Corporates and SMEs are structured across various products and maturities and are subject to review at least annually. Semi-annual "short-form" reviews are also performed subject to certain additional criteria.

Financial institutions

The Group's policy is to assess the credit risk in facilities granted to financial institutions by utilizing data from external credit agencies. Such data are further complemented by the bilateral transaction history with the relevant financial institution and existing and potential relationship with the Group. The resulting credit facilities are structured across various products and maturities and are subject to review at least annually.

Consumer lending

The independence of the risk management function helps to balance appropriate near-term and longer-term objectives. Consumer lending criteria incorporate CBK regulatory guidelines and Group policies related to consumer credit facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilized include applicant characteristics obtained from credit bureaus, particularly the Kuwait credit bureau, to assist in assessing an applicant's ability to repay and the probability of default.

Consumer Credit Risk Management proactively monitors portfolios considering the external environment, analyzing growth in selected segments and, as per risk strategy, aims to support portfolio growth within acceptable risk appetite thresholds.

Consumer credit risk is monitored with three lines of defence.

First Line -	The Business owns and manages risks and controls (including the identification and assessment of risk and controls) in adherence to credit policies governing the business and across the value chain in line with risk appetite.
Second Line -	The Consumer Credit Risk Management function develops and maintains the risk management framework which enables the business to manage the risk and control environment within the Board-approved risk appetite.
Third Line -	Group Internal Audit independently tests, verifies and evaluates controls for effective credit risk management and the implementation of policies and procedures.

4.1.6. Group credit risk monitoring and portfolio management

The Group has a portfolio risk-rating process through which the overall portfolio quality is assessed at regular intervals and analyzed for credit committees. In addition, a RAROC (Risk-Adjusted Return on Capital) model is in use to guide business lines and Management in pricing credit facilities granted to corporate clients. The RAROC model is based on the premise that pricing should be aligned with the risk embedded in the proposal.

The Group's credit exposures are regularly reviewed and monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in a deterioration of credit risk quality. The triggers and early-warning systems along with market intelligence, facility utilization and collateral valuation updates are included in the regular review of the credit facilities to enable timely corrective action by Management. These reviews are performed on a semi-annual, annual and ad-hoc basis as required. The results of the monitoring process are reflected in the internal rating.

The total portfolio credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Cross-border exposures are monitored by the central credit risk management function against specific limits set for this purpose.

Consumer credit risk reporting also includes a detailed dashboard for consumer and small-business lending, covering the entire credit life-cycle, including delinquency monitoring such as ageing and migration and loss recognition.

4.1.7. Group credit risk mitigation strategy

Portfolio diversification is a cornerstone of the Group's credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures.

In accordance with CBK regulations, the Group limits its credit concentration per group of related entities to 15.0 per cent. of the Bank's Regulatory Capital. This does not apply to government and quasi-government entities, agencies and departments in the GCC countries that do not work on a commercial basis and subject to CBK approval, or to banks. The Group also measures its concentration levels across sectors, geographies and products to ensure and enhance the portfolio oversight and diversification.

Credit risk mitigants such as collateral and guarantees from third parties are effective mitigating factors within the Group's portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of syndications, risk participation arrangements with other banks and sale of loans are common practices to manage the Group's exposures.

4.1.8 Management of credit collateral and valuation

The main types of collateral accepted by the Group include:

- cash collateral;
- quoted shares and units in collective investment schemes;
- bank guarantees;
- commercial and residential real estate; and
- eligible debt instruments (principally sovereign and bank obligors).

The custody and daily "mark to market" (revaluation) of financial collateral, inclusive of shares, are performed independent of the business units. Real estate collateral except private residences is valued on an annual basis.

In accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. However, in accordance with the CBK Basel III framework, only cash collateral, guarantees from banks with defined high credit-quality ratings, quoted shares, eligible debt instruments and units in collective investment schemes are recognised as risk mitigation for capital adequacy purposes.

The Group's credit exposures were covered by the following eligible financial collateral and guarantees:

Table 7				KD 000s		
	31 December 2023			31 December 2022		
	Gross credit exposure	**Eligible Credit Risk Mitigation**	**Eligible guarantees**	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees
Cash	184,832	-	-	244,199	-	-
Claims on sovereigns	7,774,130	77,155	-	8,253,189	504	-
Claims on International Organisations	153,308	-	-	122,546	-	-
Claims on public sector entities	1,675,638	-	-	1,595,886	377	-
Claims on multilateral development banks	248,550	-	-	92,728	-	-
Claims on banks	5,738,584	53,327	1,324,512*	5,903,570	81,711	1,288,950 *
Claims on corporates	18,209,980	1,345,188	-	16,352,030	1,428,506	-
Regulatory retail exposure	7,648,318	173,145	-	7,592,958	177,676	-
Past due exposures	161,944	5,057	-	151,717	5,899	-
Other exposures	1,385,833	-	-	1,249,508	-	-
Total	43,181,117	1,653,872	1,324,512	41,558,331	1,694,673	1,288,950

* "Memorandum" item where banks act as "guarantors"

4.1.9. Gross, average and net credit exposures

The Group's gross credit exposures, average credit exposures and the former adjusted for credit conversion and credit risk mitigation factors, respectively, are detailed below:

Table 8	KD 000s					
	31 December 2023			31 December 2022		
	Gross credit exposure	**Funded exposure**	**Unfunded exposure**	Gross credit exposure	Funded exposure	Unfunded exposure
Cash	184,832	184,832	-	244,199	244,199	-
Claims on sovereigns	7,774,130	7,762,498	11,632	8,253,189	8,241,066	12,123
Claims on International Organisations	153,308	153,308	-	122,546	122,546	-
Claims on public sector entities	1,675,638	1,566,677	108,961	1,595,886	1,538,660	57,226
Claims on multilateral development banks	248,550	248,550	-	92,728	92,728	-
Claims on banks	5,738,584	4,003,076	1,735,508	5,903,570	4,065,179	1,838,391
Claims on corporates	18,209,980	14,600,321	3,609,659	16,352,030	12,949,529	3,402,501
Regulatory retail exposure	7,648,318	7,586,987	61,331	7,592,958	7,533,398	59,560
Past due exposures	161,944	160,335	1,609	151,717	150,217	1,500
Other exposures	1,385,833	1,385,833	-	1,249,508	1,249,508	-
Total	43,181,117	37,652,417	5,528,700	41,558,331	36,187,030	5,371,301

Table 9:	KD 000s					
Average Credit Exposures*	**31 December 2023**			31 December 2022		
	Average credit exposure	**Funded exposure**	**Unfunded exposure**	Average credit exposure	Funded exposure	Unfunded exposure
Cash	193,912	193,912	-	251,295	251,295	-
Claims on sovereigns	7,274,160	7,259,055	15,105	7,547,386	7,528,388	18,998
Claims on International Organisations	153,335	153,335	-	120,901	120,901	-
Claims on public sector entities	1,644,549	1,574,834	69,715	1,615,425	1,567,262	48,164
Claims on multilateral development banks	173,893	173,893	-	70,031	70,031	-
Claims on banks	6,068,253	4,262,590	1,805,663	5,782,341	3,922,344	1,859,997
Claims on corporates	17,441,121	13,926,788	3,514,333	15,643,401	12,423,042	3,220,359
Regulatory retail exposure	7,604,472	7,544,301	60,171	7,408,367	7,351,287	57,080
Past due exposures	208,155	206,546	1,609	125,148	123,396	1,752
Other exposures	1,366,939	1,226,227	140,712	1,181,813	1,181,813	-
Total	42,128,789	36,521,481	5,607,308	39,746,108	34,539,759	5,206,350

*Based on average of four quarter-end balances

Table 10:	KD 000s					
Net Credit Exposures	**31 December 2023**			31 December 2022		
	Net credit exposure	**Funded exposure**	**Unfunded exposure**	Net credit exposure	Funded exposure	Unfunded exposure
Cash	184,832	184,832	-	244,199	244,199	-
Claims on sovereigns	7,692,969	7,685,811	7,158	8,247,188	8,241,066	6,122
Claims on International Organizations	153,308	153,308	-	122,546	122,546	-
Claims on public sector entities	1,659,185	1,566,677	92,508	1,579,037	1,538,660	40,377
Claims on multilateral development banks	248,550	248,550	-	92,728	92,728	-
Claims on banks	4,912,191	4,077,353	834,838	4,981,631	4,141,232	840,399
Claims on corporates	15,285,571	13,460,017	1,825,554	13,421,656	11,719,276	1,702,380
Regulatory retail exposure	7,443,375	7,431,099	12,276	7,384,908	7,372,130	12,778
Past due exposures	156,083	155,278	805	145,068	144,318	750
Other exposures	1,385,833	1,385,833	-	1,283,126	1,283,126	-
Total	39,121,897	36,348,758	2,773,139	37,502,087	34,899,281	2,602,806

As at 31 December 2023, 41 % (2022: 42%) of the Group's net credit risk exposure was rated by External Credit Assessment Institutions (ECAIs) recognised for the purpose, as detailed below:

Table 11:	KD 000s					
Net Credit Exposures	**31 December 2023**			31 December 2022		
	Net credit exposure	**Rated exposure**	**Unrated exposure**	Net credit exposure	Rated exposure	Unrated exposure
Cash	184,832	-	184,832	244,199	-	244,199
Claims on sovereigns	7,692,969	7,692,969	-	8,247,188	8,247,188	-
Claims on International Organizations	153,308	-	153,308	122,546	-	122,546
Claims on public sector entities	1,659,185	254,029	1,405,156	1,579,037	121,046	1,457,991
Claims on multilateral development banks	248,550	248,550	-	92,728	92,728	-
Claims on banks	4,912,191	4,872,643	39,548	4,981,631	4,943,006	38,625
Claims on corporates	15,285,571	3,099,397	12,186,174	13,421,656	2,359,811	11,061,845
Regulatory retail exposure	7,443,375	-	7,443,375	7,384,908	-	7,384,908
Past due exposures	156,083	-	156,083	145,068	-	145,068
Other exposures	1,385,833	-	1,385,833	1,283,126	-	1,283,126
Total	39,121,897	16,167,588	22,954,309	37,502,087	15,763,779	21,738,308

The Group uses external ratings (where available) from recognised and creditable market sources to supplement internal ratings during the process of determining credit limits. Public issue instruments without external ratings are risk-weighted at 100% for capital adequacy purposes.

The geographical distribution of the gross credit exposure before taking into consideration credit enhancements is as detailed below:

Table 12 — KD 000's

31 December 2023	Middle East and North Africa	North America	UK & Europe	Asia	Others	Total
Cash	163,386	2,082	19,364	-	-	184,832
Claims on sovereigns	6,295,699	1,090,340	273,806	114,285	-	7,774,130
Claims on International Organizations	-	-	-	153,308	-	153,308
Claims on public sector entities	1,659,199	-	15,919	520	-	1,675,638
Claims on multilateral development banks	234,614	7,684	6,252	-	-	248,550
Claims on banks	3,128,757	254,745	1,265,293	1,075,242	14,547	5,738,584
Claims on corporates	12,410,504	873,299	2,671,620	1,796,842	457,715	18,209,980
Regulatory retail exposure	7,632,780	612	7,587	3,262	4,077	7,648,318
Past due exposures	111,874	35,328	14,742	-	-	161,944
Other exposures	979,172	151,257	190,950	9,261	55,193	1,385,833
Total	32,615,985	2,415,347	4,465,533	3,152,720	531,532	43,181,117

KD 000's

31 December 2022	Middle East and North Africa	North America	UK & Europe	Asia	Others	Total
Cash	163,267	423	80,508	-	-	244,198
Claims on sovereigns	5,494,542	2,415,330	226,148	117,168	-	8,253,188
Claims on International Organizations	-	-	-	122,546	-	122,546
Claims on public sector entities	1,574,547	-	20,846	493	-	1,595,886
Claims on multilateral development banks	92,728	-	-	-	-	92,728
Claims on banks	3,344,384	403,371	1,195,749	900,720	59,346	5,903,570
Claims on corporates	11,212,159	837,998	2,374,270	1,486,802	440,805	16,352,034
Regulatory retail exposure	7,578,526	1,452	6,338	2,645	3,997	7,592,958
Past due exposures	93,462	6,249	52,005	-	-	151,716
Other exposures	886,943	97,502	167,967	7,611	89,484	1,249,507
Total	30,440,558	3,762,325	4,123,831	2,637,985	593,632	41,558,331

The Group's gross credit exposure by residual contractual maturity is as detailed below:

Table 13 — KD 000's

31 December 2023	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	184,832	-	-	184,832
Claims on sovereigns	4,576,933	876,419	2,320,778	7,774,130
Claims on International Organizations	101,232	52,076	-	153,308
Claims on public sector entities	479,601	135,171	1,060,866	1,675,638
Claims on multilateral development banks	103,701	3,136	141,713	248,550
Claims on banks	2,696,721	990,081	2,051,782	5,738,584
Claims on corporates	5,615,478	3,206,072	9,388,430	18,209,980
Regulatory retail exposure	225,458	511,377	6,911,483	7,648,318
Past due exposures	109,025	-	52,919	161,944
Other exposures	253,888	47,729	1,084,216	1,385,833
Total	14,346,869	5,822,061	23,012,187	43,181,117

KD 000's

31 December 2022	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	244,184	15	-	244,199
Claims on sovereigns	5,000,220	936,625	2,316,344	8,253,189
Claims on International Organizations	100,780	21,766	-	122,546
Claims on public sector entities	510,295	127,631	957,960	1,595,886
Claims on multilateral development banks	70,526	-	22,202	92,728
Claims on banks	2,831,727	849,127	2,222,716	5,903,570
Claims on corporates	5,672,644	2,739,703	7,939,683	16,352,030
Regulatory retail exposure	205,825	545,307	6,841,826	7,592,958
Past due exposures	151,717	-	-	151,717
Other exposures	280,926	50,065	918,517	1,249,508
Total	15,068,844	5,270,239	21,219,248	41,558,331

4.1.10. Impairment Expected Credit Loss and/or Provisions

Policy since 1 January 2018

Impairment of financial assets other than credit facilities
The Group recognises Expected Credit Losses (ECL) under IFRS 9 on:

- investment in debt securities measured at amortised cost or fair value through other comprehensive income; and
- balances and deposits with banks.

Equity investments are not subject to Expected Credit Losses. The ECL on financial assets other than credit facilities as at 31 December 2023 amounted to KD 72,707 thousand. (2022: KD 72,709 thousand)

Impairment of credit facilities
Credit facilities granted by the Group consist of:

- loans and advances, Islamic financing to customers including credit commitments;
- letters of credit and financial guarantee contracts including credit commitments

Impairment on credit facilities is recognised in the consolidated statement of financial position at an amount equal to the higher of:

(i) ECL under IFRS 9 according to the CBK guidelines dated 25th December 2018,

The Group in estimating ECL on credit facilities has taken into consideration the following key parameters based on inputs from CBK:

- a floor for estimating probability of default ("PD") for specific portfolios;
- eligible collateral with haircuts for determining loss given default ("LGD") and a floor LGD;deemed maturity for exposures in Stage 2;
- a credit conversion factor ("CCF") on utilised and un-utilised portions for cash and non-cash facilities;
- a days-past-due backstop, and a rating notch downgrade for stage movement for specific portfolios; and
- a stage 2 observation period prior to curing.

Refer Notes of the Group's consolidated financial statement for further details on ECL. and

(ii) the provisions required by the CBK instructions of December 1996 since amended in 2007.

Credit facilities are classified as past-due when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered as past-due and impaired if the interest or profit or a principal instalment is past due for more than 90 days, and as impaired if the carrying amount of the facility is greater than its estimated recoverable value.

Past-due and past-due and impaired facilities are managed and monitored as "irregular" facilities and are classified into the following four categories, which are then used to guide the provisioning process:

- Watchlist, irregular for a period up to and including 90 days (no specific provision required);
- Substandard, irregular for a period from and including 91 days and up to and including 180 days (20 per cent. specific provision required);
- Doubtful, irregular for a period from and including 181 days and up to and including 365 days (50 per cent. specific provision required); and
- Bad, irregular for a period exceeding 365 days (100 per cent. specific provision required).

The Group may also include a credit facility in one of the above categories based on Management's judgement of a customer's financial and/or non-financial circumstances.

The Group impaired loan portfolio as at 31 December 2023 was KD 318,386 thousand (2022: KD 310,046 thousand) against which a specific provision of KD 159,150 thousand (2022: 159,870 thousand) has been made, as detailed below:

Table 14 (KD 000's)

31 December 2023	Past due and impaired financing	Related Specific provision	Specific provision recovered (written off), net of exchange rate movement
Claims on corporates	179,233	70,402	(21,903)
Regulatory retail exposure	139,153	88,748	(25,797)
Total	**318,386**	**159,150**	**(47,700)**

KD 000's

31 December 2022	Past due and impaired financing	Related Specific provision	Specific provision recovered (written off), net of exchange rate movement
Claims on corporates	182,056	69,407	214,231
Regulatory retail exposure	127,990	90,463	(12,734)
Total	310,046	159,870	201,497

The geographical distribution of "past-due and impaired" financing and the related specific provision are as follows:

Table 15 (KD 000's)

31 December 2023	Middle East and North Africa	North America	UK & Europe	Asia	Others	Total
Past due and impaired financing	248,040	55,457	14,889	-	-	318,386
Specific provision	138,874	20,129	147	-	-	159,150

KD 000's

31 December 2022	Middle East and North Africa	North America	UK & Europe	Asia	Others	Total
Past due and impaired financing	238,987	15,367	55,692	-	-	310,046
Specific provision	147,100	9,118	3,652	-	-	159,870

In accordance with CBK regulations, minimum general provisions of 1% for cash facilities and 0.5% for non-cash facilities, respectively, are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

The adequacy of provisions is regularly evaluated and monitored by the Provision Committee.

The Group's total provision as at 31 December 2023 was KD 903,390 thousand (2022: 868,285 thousand) inclusive of a general provision of KD 729,148 thousand (2023: KD 691,088 thousand) as detailed below:

Table 16	KD 000's	
	31 December 2023	31 December 2022
Claims on sovereigns	**3,689**	3,863
Claims on public sector entities	**9,037**	12,360
Claims on banks	**5,009**	4,951
Claims on corporates	**627,383**	572,770
Regulatory retail exposure	**84,030**	97,144
Total	**729,148**	691,088

The total general provision above includes KD 31,568 thousand (2022: KD 31,068 thousand) relating to "non-cash" facilities in accordance with CBK regulations.

The geographical distribution of the general provision on "cash" facilities is as follows:

Table 17	KD 000's					
	Middle East and North Africa	**North America**	**UK & Europe**	**Asia**	**Others**	**Total**
31 December 2023	**650,045**	**6,752**	**29,970**	**6,464**	**4,349**	**697,580**
31 December 2022	616,404	7,076	28,155	4,617	3,768	660,020

The analysis of specific and general provisions is further detailed in note 13 of the Group's consolidated financial statements.

The provisions for credit facilities as at 31 December 2023 was KD 903,390 thousand (2022 : KD 868,285 thousand) computed pursuant to the CBK instructions of December 1996 since amended, are higher than the IFRS 9 ECL for credit facilities as at 31 December 2023 which was KD 615,659 thousand (2022 : KD 577,435 thousand).

4.2. Market risk

Market risk is defined as the potential loss in value of financial instruments or contracts or portfolio of instruments caused by adverse movements in market variables such as interest rates, foreign exchange rates, equity prices, volatility, spreads etc.

The Group identifies market risk inherent in its financial claims and loans, FX exposure, trading and investment activities, and defines market risk management strategy through the following:

- Implementation of Market Risk Management Framework
- Well-defined processes and strong and effective controls
- Recognition of Market Risk as inherent to Bank's Business Model and Macro-Economic Environment.
- Clear segregation of "front", "back" and 'middle' office duties.
- Bank's approach to accept, limit and increase Market Risks
- Regular and effective monitoring and reporting of exposures and risk measures
- Regular monitoring of market prices and valuation of financial instruments
- Defined set of internal limits and regular reporting on the adherence to those limits
- Regular independent review of internal controls and limits
- Implementation of adequate infrastructure

4.2.1. Market-risk management framework

The Bank's Market Risk Management Framework consists of Governance, Identification & Measurement, Management & Limit Setting as well as Reporting/ Management information.

The Board of Directors (BoD) is ultimately responsible for determining and setting the amount of Market Risk that the Bank is exposed to as a result of executing its business strategy through Bank's Risk Appetite. The market risk management framework governs the Group's trading and non-trading related market risk activities. The General Manager of the Treasury Group and General Managers in Overseas locations are responsible for managing trading activities. The management of market risk inherent within the Group's non-trading activities is the primary responsibility of the Group Asset and Liability Executive Committee (ALEC), supported by the regional Asset and Liability Committees.

Group Asset and Liability Management (ALM) Unit is responsible for supervising the management of Market Risk exposure. All activities giving rise to market risk are conducted within a structure of approved credit and position limits. Group Market Risk Management independently measures, monitors and reports on Bank's market risk exposures.

4.2.2. Monitoring of non-trading market risk in the banking book

The Group's key non-trading market risk is the sensitivity of its net interest income to movements in interest rates.

The interest rate risk in the "Banking Book" is managed through amongst others a "re-pricing gap" limit structure which is supplemented by periodic analysis of scenarios (instantaneous parallel shift of +/-5 bps and +/-10bps in the yield curve) to capture the sensitivity of the exposure to interest rate changes.

The analysis of scenarios shows the impact in the banking book as follows:

Table 18	KD 000's			
	+ 5bp	**-5bp**	**+10bp**	**-10bp**
31 December 2023	**3,307**	**(3,307)**	**6,614**	**(6,614)**
31 December 2022	3,359	(3,359)	6,717	(6,717)

Included in the assumptions above are that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action is taken to mitigate the impact of interest rate risk. In addition to interest rate risk, the Group is also exposed to market risk as a result of changes in the "fair value" of its strategic equity and investment positions held without any intention of liquidation.

4.2.3. Monitoring of "market" risk from "trading" activities

The Group's Risk Management function independently monitors the regional and global trading market risk exposure using Value-at-Risk ("**VaR**") methodology to derive quantitative measures specifically for market risk under normal market conditions. This enables the Group to apply a constant and uniform measure across all of its trading activities and facilitates comparisons of market risk estimates, both over time and against daily trading results.

The VaR is supplemented with stress-testing (a stressed VaR) to quantify market risk under extreme stress scenarios based on observed historical worst-case and in-house developed scenarios. VaR computation allows for diversification benefits at the Group level. Furthermore, the Group recognizes and mitigates the correlation of other risks and processes in its market risk monitoring process.

In addition to VaR, the Group uses a structure of foreign exchange and interest rate limits to manage and control its market risk associated with trading activities. The Group's market risk is also assessed under stressed conditions using the same framework. Computations are based on stressed historical data.

4.2.4 Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual shares. Equity price risk arises from the change in fair values of equity investments. The Group manages equity price risk through diversification of investments in terms of geographic distribution and industry concentration.

The CBK has set a maximum limit of 50 per cent. of a bank's Regulatory Capital for investment in funds and equities, excluding in subsidiaries.

The analysis of the Group's total equity investment portfolio is as follows:

Table 19	KD 000's	
	31 December 2023	31 December 2022
Total Equity Investment	**75,754**	68,720
Of which Quoted Investments (%)	**55%**	48%
Net gains or (loss) of FVPL classified instruments recognised in Profit & Loss Statement during the period	**3,219**	(2,738)
Net gains or (loss) of FVOCI classified instruments recognized in Balance-sheet as at period-end	**(1,250)**	(1,851)
Capital requirement of Equity investment portfolio categorized as:		
Fair value through Other Comprehensive Income (FVOCI)	**6,151**	5,020
Fair value through P&L (FVPL)	**6,078**	4,977

All revaluation gains or losses during the year relating to equity investments were recorded in the consolidated statement of financial position. For additional details of the accounting policies related to the valuation of equity holdings, refer to notes 2.15 and 2.16 of the Group's consolidated financial statements.

4.2.5 Currency Risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which transactions are denominated and the respective functional currency of the Group companies and ultimately upon translation to the Base Currency of the Group.

The currency exposures are monitored on a regular basis and compared against approved risk appetite.

4.2.6 Managing Interest rate benchmark reform and associated risks

Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR' reform). The Group has been closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates.

The key risks for the Group arising from the transition are Conduct risk, Pricing risk, Interest rate basis risk, Accounting, Litigation and Operational risk.

Progress on transition

Non-Derivatives

The Group has completed the transition of its non-USD IBOR linked contracts to risk-free/ alternative rates, through amendments to fall back clauses as well as agreeing with the client/ counterparty on the alternative rate. The Group has transitioned significant majority of its USD linked contracts to "Risk-Free Rates" (RFRs). For remaining contracts which are mainly syndicated contracts, discussions are currently in progress with the counterparties to complete the transition. For contracts whose transition is not completed, the Group will continue with the 'synthetic' LIBOR benchmark published by the ICE Benchmark Administration until 30-Sep-2024.

Derivatives

The Group has completed the transition of all USD and non-USD linked derivatives as per ISDA Fallbacks Protocol.

Hedge Accounting

Refer to note 2.21 of the financial statements.

4.2.7. Counterparty Credit Risk

The Group enters into financial instruments that are traded over the counter mainly for hedging purpose with various counterparties. In most cases, industry-standard documentation is used which gives the Group the protection in situation where the Group's Counterparty is in default. The Group also enters into Interest Rate Swaps, which are cleared on an exchange and provide daily margin in the form of cash at the exchange.

Counterparty Credit Exposure arises from the risk that counterparties are unable to meet their payment obligations under certain financial contracts such as derivatives.

The Group Risk Management function independently monitors counterparty credit risk exposures arising from its derivatives transactions using the concept of Potential Future Exposure (PFE). The PFE is defined as the maximum expected credit exposures over a specified horizon at a particular confidence level. As such, the risk exposure is an upper bound of possible exposures at the selected confidence level and not the maximum risk exposure possible.

In response to the various regulations, including the European Market Infrastructure Regulations (EMIR), the Bank has, with the approval of the CBK, established NBK GDM (Caymans) Limited to deal in financial derivatives products, which allows the Bank to continue dealing with highly-rated counterparties on derivative transactions with netting arrangements in place and removes the risk that the Bank may be required to post "margin" collateral on an asymmetric basis. The Bank has also set in place policies and procedures to ensure compliance with EMIR regulations, i.e., to clear OTC derivatives through Central Counterparties (CCP).

Wrong-Way Risk (WWR)

WWR arises when there is adverse (positive) correlation between a client's credit-worthiness (probability of default) and the Group's credit exposure to that client.

NBK does not enter into derivatives whose valuations depend on the credit quality of the counterparty and hence wrong-way risk is not a factor of risk for the Bank.

4.2.7.1 Assignment of credit limits for Counterparty Credit Exposures

Counterparty credit risk exposure arises from the risk that counterparties are unable to meet their payment obligations under derivative contracts. The allocation of credit limits for derivatives market counterparties is provided by the Bank's Institutional Banking Division taking into consideration counterparty credit profile, historical financial performance, geographical location, legal jurisdiction and other relevant factors. The credit limits are reviewed on an annual basis and credit exposure is regularly monitored and reported for all derivatives' counterparties.

4.2.7.2 Policies for securing collateral and credit reserves

Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. The Group uses ISDA master agreement as the preferred agreement for documenting OTC derivatives. In order to reduce its counterparty risk, the Group selectively enters into ISDA Credit Support Annex (CSA) collateral agreements. In line with these standards, the Group generally accepts only cash as collateral. It also has policies and procedures for reviewing the legal enforceability of credit support documents in accordance with applicable rules. Credit risk is reduced through the process of daily margining with relevant market-counterparties. Daily margining is performed with the help of Treasury system as well as through the use of collateral service agent. Daily valuations for qualified derivatives are compared to those reported by the market-counterparties and any disagreements are directly resolved between the parties. The Group uses an internal model to estimate PFE, which includes the mitigating effects of netting and collateral in valuing over-the-counter contracts.

Additional collateral requirements due to credit rating downgrade

The Group has no provisions in its agreements with market counterparties where a downgrade in its credit rating will have an impact on the collateral amount to be posted.

4.2.7.3 General Disclosure for Counterparty Credit Risk

Table 20	KD 000s	
Derivative Contracts	**31 December 2023**	31 December 2022
Gross Positive fair value	**290,685**	325,986
Counterparty netting benefit	**(20,150)**	(16,251)
Netted current credit exposure	**270,535**	309,735
Cash collateral (held by NBK)	**247,132**	297,916
Net exposure (after netting and collateral)	**23,403**	11,818

4.2.7.4 Exposure-at-Default Methodology

As per the regulatory requirements, the Bank calculates counterparty credit exposure as per the Current Exposure Method (CEM) for its exposure to derivatives counterparties.

In addition, the Bank calculates counterparty credit exposure using the Potential Future Exposure (PFE) measure. The Bank applies 'historical' simulation approach (at 99% confidence level) by projecting the potential values of relevant risk factors across the transactions' horizon, and then re-valuing derivatives transactions and counterparty credit exposures according to the projected risk factor.

Both the CEM and PFE methods incorporate the effects of legally enforceable netting and collateral agreements when estimating counterparty exposure.

Table 21	KD 000s	
	31 December 2023	31 December 2022
Counterparty Credit Risk (CEM method) for derivatives' counterparties	**152,255**	113,276
Counterparty Credit Risk (PFE method) for derivatives' counterparties	**354,028**	387,775

4.2.8 Notional value of credit derivatives transactions
NBK has no exposure to credit derivatives.

4.3 Operational risk
Operational risks are governed at Group level through a Board-approved Group Operational Risk Management policy and framework which defines the roles and responsibilities of the Board & BRCC, the EC, Business and Operational Teams, Group Operational & Technology Risk Management function [ORM] and the Group Internal Audit function [GIA] for managing, monitoring and reporting operational risks. The key components of the Board-approved framework are:

- comprehensive, documented policies, procedures and controls which reflect CBK and Basel III guidelines for internal controls and sound practices for managing and supervising operational risks in banks;
- risk and control self-assessments conducted by business line management in coordination with and supported by ORM;
- quarterly key risk indicator submission and validation to identify risk trends and develop mitigating actions;
- operational incident, loss reporting and investigation of causes and failed controls;

ORM has implemented an Integrated Risk Management system that facilitates the maintenance of a comprehensive Risk Register, approval framework for plans to deal with residual risk treatment plans, reporting of risk indicators and operational incidents and maintenance of business continuity impact assessments and plans.

ORM works closely with all of the Group's business lines to raise awareness of operational risk. In addition to the risk opinions and constant support provided by the operational risk management function through daily activities, operational risk awareness is achieved through a comprehensive training programme developed and delivered by the operational risk management function to the various business units. The aim of this training programme is to cultivate strategic relationships with business line management and to encourage open communication and ownership of risk issues.

Risk and control self-assessments are regularly conducted by the Business and Operational teams in order to identify the residual risks, control gaps and take relevant risk treatment measures in consultation with ORM.

Key risks across business and support units are identified and monitored on a quarterly basis using various key risk indicators developed with the business units in line with the Group's risk appetite. The capture and reporting of operational risk incidents and losses are established as a firm process across all business and support units. Close co-ordination with business units and the GIA enables ORM to track operational incidents and losses and to propose mitigating actions for business units to follow in order to address control weaknesses.

In addition, a comprehensive Business Continuity, Crisis Management and Disaster Recovery management programme designed to cope with business disruptions and major disasters has been implemented and is regularly tested.

Material Operational risks are periodically reviewed with relevant members of Executive Management and reported to the EC and BRCC to ensure comprehensive oversight.

4.4 Liquidity risk
Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or the ability only to secure them at excessive cost. It is the policy of the Group to maintain adequate liquidity at all times, in all geographical locations.

The Group's liquidity management is guided by its internal liquidity policy, which is reviewed annually and approved by the Board. The EC assigns responsibilities and ensures the Group has sufficient resources to carry out liquidity risk management work in an independent and effective manner. The primary responsibilities for the management of liquidity are with the ALEC, regional asset and liability committees, the Group Treasurer and local Treasurers. Day-to-day cash-flows and liquidity management are handled by the 'local' treasury teams at Group Head Office and the Group's international locations. The longer-term liquidity and funding profile of the Group is monitored and managed by Group Treasury under the guidance of the ALEC.

The Group's liquidity policy specifies the main goals, roles and responsibilities, processes and procedures for managing the Group's liquidity risk. It also encompasses the Group's contingency funding plan, which is intended to provide a framework for effective responses to any potential liquidity crisis, whether triggered by Bank-specific or by systemic liquidity shortages.

The Bank's liquidity risk strategy is centred on maintaining an adequate liquidity position at all times, primarily by means of an acceptable maturity mismatch profile, relying on more 'stable' deposits and maintaining an adequate stock of High-Quality Liquid Assets (HQLAs) at all times. Further, the Bank's liquidity objectives are:

- to ensure strategies are in conformity with the regulatory requirements of the CBK and the requirements of the local regulators in other jurisdictions where the Group operates;
- to ensure the use of proper tools in ascertaining liquidity risk;
- continuously to seek sources of stable customer funds and to keep its funding costs as low as possible;
- to limit its dependence on the use of short-term inter-bank funding;
- to leverage its strong position, reputation and credit strength in order to secure long-term funding, such as customer deposits, institutional deposits, government deposits and debt issuance at a competitive cost;
- to ensure the Bank's ability to generate or obtain cash or its equivalent in a timely and cost-efficient manner so that the Bank can meet its obligations;
- to maintain market confidence; and
- to ensure profitable business opportunities can be pursued without liquidating assets at undesirable times, or raising additional unsecured funding on an unreasonable scale or timescale.

The liquidity and funding management process includes:

- self-imposed and regulatory liquidity ratios, including ratios in accordance with Basel III principles;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on individual large depositors and ensure a satisfactory overall funding mix; and
- liquidity stress tests to make sure the Group can survive liquidity squeezes under different stress scenarios.

The Bank monitors and reports various internal and regulatory liquidity metrics in order to manage and comply with liquidity risk on an on-going basis. Specifically, since 1st Jan 2016, the Bank is monitoring and reporting Liquidity Coverage Ratio (LCR) in line with CBK instructions. Refer to the Liquidity Coverage Ratio disclosures available on the Bank's website of the Bank for Governance framework, Funding Strategy and LCR ratio results and analysis.

In accordance with the Basel III framework, as implemented by the CBK, the Group also manages its liquidity through compliance with the Net Stable Funding Ratio (NSFR). Starting from 1 January 2018, the Bank has been monitoring and reporting its NSFR in line with CBK instructions. Refer to the NSFR related disclosures available on the Bank's website on a quarterly basis.

4.5 Reputation and fiduciary risk
Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion which will affect the ability to establish new relationships or services or to continue servicing existing relationships.

Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary and non-fiduciary clients.

Through its policies and practices, NBK ensures proper screening of clients' risk profiles and performance expectations is conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated, and funds placed under management are treated with due care and professionalism.

During the year, Assets under Management at the Group increased by 16.2 % (2022: 6.4%) to reach KD 6,600 million on 31 December 2023 (2022: KD 5,682 million).

III Composition of Capital

1. Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:
i. Common Equity Tier 1
ii. Tier 1 Capital
iii. Tier 2 Capital

Common Equity Tier 1 Capital comprises shareholders' equity, retained earnings, eligible reserves and related eligible non-controlling interests. The book values of Goodwill and Intangibles are deducted along with other regulatory adjustments.

Tier 1 Capital consists of Common Equity Tier 1 Capital and Additional Tier 1 Capital which includes eligible portions of non-controlling interests.

Total Regulatory Capital includes Tier 1 Capital and Tier 2 Capital which consists of the allowed portions of general provisions and certain additional eligible non-controlling interests.

The below table summarises the composition of capital and ratios:

Table 22	KD 000's	
	31 December 2023	31 December 2022
Common Equity Tier 1 capital	3,442,577	3,170,120
Tier 1 capital	3,974,353	3,697,531
Total capital	4,572,242	4,271,095
Total risk-weighted assets	26,469,664	24,571,452
Capital ratios and buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	13.0%	12.9%
Tier 1 (as percentage of risk-weighted assets)	15.0%	15.0%
Total capital (as percentage of risk-weighted assets)	17.3%	17.4%
National minima		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer*	9.5%	8.0%
Tier 1 minimum ratio	11.0%	9.5%
Total capital minimum ratio excluding Countercyclical and D-SIB buffers	13.0%	11.5%
NBK Group minima		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer and Domestic Systemically-Important Bank Buffer*	11.5%	10.0%
Tier 1 minimum ratio	13.0%	11.5%
Total capital minimum ratio excluding Countercyclical Buffer	15.0%	13.5%

* CET1 Capital Conservation Buffer of 2.5% for 31st December 2019 has been reduced to nil by CBK from 1st April 2020 until 31 December 2022 due to Corona Virus Disease. December 2021 due to Corona Virus Disease.

A detailed breakdown of the Group's Regulatory Capital position under the Common Disclosures template as stipulated under the Pillar 3 section of the CBK Basel III Capital Adequacy framework is presented in Table 31 available in the Appendices Section.

2. Reconciliation requirements

The basis for the scope of consolidation for accounting and regulatory purposes is consistent for the Group. In order to provide a full reconciliation of all Regulatory Capital elements to the balance sheet in the audited financial statements, a three-step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework.

Table 23 provides the comparison (Step1) of the balance sheet published in the consolidated financial statement and the balance sheet under the regulatory scope of consolidation. Lines have been expanded and referenced with letters (Step 2) to display the relevant items of the Regulatory Capital.

Table 23: Steps 1 and 2 of Reconciliation requirements	KD 000s		
Item	**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**	Reference
	31-Dec-23	**31-Dec-23**	
Assets			
Cash and short-term funds	4,384,700	4,384,700	
Central Bank of Kuwait bonds	856,815	856,815	
Kuwait Government treasury bonds	194,111	194,111	
Deposits with banks	1,318,121	1,318,121	
Loans, advances and Islamic financing to customers	22,281,004	22,281,004	
of which General Provisions(netted above) capped for Tier 2 inclusion	306,421	306,421	a
Investment securities	6,884,821	6,884,821	
Investment in associates	-	-	
Land, premises and equipment	506,812	506,812	
Goodwill and other intangible assets	508,416	508,416	
of which goodwill deducted from CET1 Capital	337,181	337,181	b
of which other intangibles deducted from CET1 Capital	171,235	171,235	c
Other assets	730,191	730,191	
Total assets	37,664,991	37,664,991	
Liabilities			
Due to banks and other financial institutions	7,689,431	7,689,431	
Customers deposits	21,948,957	21,948,957	
Certificates of deposit issued	822,899	822,899	
Other borrowed funds	1,331,006	1,331,006	
Amount recognized in Tier 2 capital	241,702	241,702	d
Other liabilities	966,123	966,123	
Total liabilities	32,758,416	32,758,416	

Table 23: Steps 1 and 2 of Reconciliation requirements (continued)	**KD 000s**		
Item	**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**	Reference
	31-Dec-23	**31-Dec-23**	
Shareholders' Equity			
Share capital	792,995	792,995	e
Proposed bonus shares	39,649	39,649	p
Statutory reserve	396,499	396,499	f
Share premium account	803,028	803,028	g
Treasury shares	-	-	
Treasury shares reserve	34,961	34,961	h
Other Reserves	1,816,640	1,816,640	
of which Retained Earnings eligible as CET1 Capital	1,750,695	1,750,695	i
Retail Loans deferment Loss	32,625	32,625	j
of which Proposed Dividend	198,249	198,249	
of which Others eligible as CET1 Capital	(132,304)	(132,304)	k
Equity attributable to shareholders of the Bank	3,883,772	3,883,772	
Perpetual Tier 1 Capital Securities	439,032	439,032	
of which used for Regulatory Capital	439,032	439,032	l
Non-controlling interests	572,926	572,926	
of which Limited Recognition eligible as CET1 Capital	205,626	205,626	m
of which Limited Recognition eligible as AT1 Capital	88,379	88,379	n
of which Limited Recognition eligible as Tier 2 Capital	46,942	46,942	o
Total equity	4,906,575	4,906,575	
Total liabilities and equity	37,664,991	37,664,991	

Table 24 provides the relevant lines under 'Table 31: Composition of Regulatory Capital' with cross references to the letters in Table 23, thereby reconciling (Step 3) the components of Regulatory Capital to the published balance sheet.

Table 24: Step 3 of Reconciliation requirements		**KD 000s**	
Relevant Row Number in Common Disclosure Template	**Common Equity Tier 1 capital: instruments and reserves**	**Component of Regulatory Capital**	**Source based on reference letters of the balance sheet from step 2**
1	Directly issued qualifying common share capital plus related stock surplus	792,995	e
2	Retained earnings	1,750,695	i
3	Accumulated other comprehensive income (and other reserves)	1,174,458	f+g+h+k+j+p
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	232,846	m
6	Common Equity Tier 1 capital before regulatory adjustments	3,950,993	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill	(337,181)	b
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(171,235)	c
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		
28	Total regulatory adjustments to Common Equity Tier 1	(508,416)	
29	Common Equity Tier 1 capital (CET1)	3,442,577	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	439,032	l
31	of which: classified as equity under applicable accounting standards	439,032	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	92,744	n
36	Additional Tier 1 capital before regulatory adjustments	531,776	
	Additional Tier 1 capital : regulatory adjustments		
44	Additional Tier 1 capital (AT1)	531,776	
45	Tier 1 capital (T1 = CET1 + AT1)	3,974,353	
	Tier 2 capital : instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	241,702	d
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	49,766	o
50	General Provisions included in Tier 2 Capital	306,421	a
51	Tier 2 capital before regulatory adjustments	597,889	
	Tier 2 capital: regulatory adjustments		
58	Tier 2 capital (T2)	597,889	
59	Total capital (TC = T1 + T2)	4,572,242	

IV. Leverage

1. Leverage Ratio

In October 2015, CBK issued the regulations on the 'Leverage Ratio' introduced by the Basel Committee as part of the regulatory reforms package. This transparent and non-risk based metric supplements the Capital ratio to act as a backstop measure to limit excessive build-up of on- and off-balance sheet exposures.

The Leverage Ratio is a separate, additional requirement from the risk-based capital requirement. It is defined as the 'capital' measure divided by the 'exposure' measure. The capital measure is made up of Tier 1 capital. The exposure measure is a sum of on-balance sheet assets, derivative exposure, securities finance transactions and off-balance sheet exposures.

The Group is in compliance with the requirements stipulated by CBK for the Leverage Ratio set at a minimum of 3%.

The Leverage Ratio for the Group at consolidated level is:

Table 25		
	31 December 2023	31 December 2022
Tier 1 Capital (KD 000s)	**3,974,353**	3,697,531
Total Exposures (KD 000s)	**40,989,808**	39,373,804
Leverage Ratio	**9.7%**	9.4%

2. Leverage Ratio Exposures

The below Table provides the details of the Total Exposures for Leverage Ratio:

Table 26	KD 000's	
Total Exposures	**31 December 2023**	31 December 2022
On-balance sheet exposures	**37,156,575**	35,803,427
Derivative exposures	**382,864**	336,204
Off-balance sheet items	**3,450,369**	3,234,173
Total exposures	**40,989,808**	39,373,804

Table 32 in Appendices Section provides details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework.

3. Reconciliation

Table 27 provides the reconciliation of the balance sheet assets from the published financial statement with total exposure amount in the calculation of the Leverage Ratio.

Summary comparison of accounting assets vs Leverage Ratio exposure measure

Table 27		KD 000's	
	Item	**31 December 2023**	31 December 2022
1	Total consolidated assets as per published financial statements	**37,664,991**	36,338,363
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage Ratio exposure measure	**-**	-
4	Adjustments for derivative financial instruments	**382,864**	336,204
5	Adjustment for securities financing transactions (ie repos and similar secured lending)		-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**3,450,369**	3,234,173
7	Other adjustments	**(508,416)**	(534,936)
8	**Leverage Ratio exposure**	**40,989,808**	36,165,918

V. Remuneration Disclosures

Qualitative Information

1. Board of Directors, Board Nomination and Remuneration Committee

NBK Group's remuneration framework is under the supervision of the Board of Directors. As per the Group's policies and charters, the Board is responsible to review and approve the Remuneration Policy and oversee the implementation of the remuneration framework.

The Board Nomination and Remuneration Committee (BNRC) comprises four members (3 Non-Executive Board members and 1 Independent Board member). The committee is chaired by the Independent Board member.

The main objective of the Committee is to carry out the nomination and remuneration responsibilities. In terms of remuneration mandates, the Committee supports the Board in setting up the Group's remuneration framework and ensures effective implementation in accordance with the Group's Remuneration Policy and Corporate Governance Code.

The key responsibilities of the Committee are summarised below:

a. Develop the Remuneration Policy in co-ordination with Executive Management and Group Human Resources and submit the same to the Board for approval. The Board is responsible for monitoring the implementation of the policy.
b. Review the Remuneration Policy in co-ordination with Group Risk Management at least on an annual basis or at the request of the Board, and provide the Board with policy amendments or update suggestions.
c. Evaluate the sufficiency and effectiveness of the Remuneration Policy on a periodic basis to ensure the achievement of its declared objectives.
d. Ensure that Independent Board members will not be paid any salary or financial amount, with the exception of the remuneration paid to them for their membership in the Board, or the dividend paid to them as a shareholder or the interests received or due on their deposits or investments from the ordinary business activities of the Bank.
e. Make recommendations to the Board regarding the level and components of the remuneration of the Group CEO and his deputies, taking into consideration the total remuneration including salaries, bonuses and other incentives.
f. Give recommendations to the Board regarding the nomination for Board membership pursuant to the approved policies and in line with the CBK's instructions setting out nomination rules for Board membership.
g. Ensure that all provisions and requirements related to the independence of Independent Board members are fulfilled and satisfied by new candidates to Board membership, and raise recommendations to the Board in this regard.
h. Assess the skills and competencies required to fulfil the Board's duties, specifically to the issues related to the strategic objectives of the Group.
i. Ensure Board's composition satisfy diversification requirements in terms of skills, capabilities, competencies, experience, culture, gender and age.
j. Identify Board members qualified to fill vacancies on any Committee of the Board, and recommend to the Board the appointment of the identified person(s) to the relevant committee.
k. Ensure the alignment of environmental and social goals to executive pay and align executives to the long-term focus of the organization.

During the year 2023 the Committee reviewed and updated the Remuneration Policy, Succession Planning Manual and its internal Charter.

2. Remuneration Policy

NBK Group Remuneration Policy is developed and implemented at the Group level and covers NBK subsidiaries and foreign branches.

NBK Group has a clear Remuneration Policy, instructions and processes, ensuring a sound remuneration framework throughout the organisation. It supports the Group's ability to recruit and retain the right talents and competences and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring sound risk management and sustained profitability.
The Policy aims to support the Group to operate a "total reward" philosophy taking account of all components of financial remuneration.

Group Policy aims to reward success, not failure, and attempts to align employees' remuneration with its risk framework and risk appetite and is designed to reward competitively the achievement of long-term sustainable performance, attract and motivate the very best persons who are committed to a long-term career with the Bank, and who will perform their role in the long-term interests of its shareholders.

In case any provisions of the Remuneration Policy document deviate from any of the local statutory or regulatory requirements, the local statutory and regulatory requirements will take precedence over the provisions of the Remuneration Policy.
The Remuneration Policy defines three major categories for remuneration treatment, governance and disclosures.

First Category: Senior Management

This category includes all employees at the level of Deputy General Manager (DGM) and higher (excluding risk management and control functions).

The number of persons in this category as of 31 December 2023 is 44 (2022: 41).

Second Category: Material Risk-Takers

This category includes the Group CEO, his deputy, CEO Kuwait, his deputy and the heads of business functions and their deputies (Deputy General Manager and higher are included in Senior Management category). The Group's core business units are:

- Global Wealth Management
- Corporate Banking Group
- Treasury Group
- Consumer Banking Group
- Private Banking Group
- Foreign Corporate and Trade Finance Banking
- International Banking Group

The number of persons in this category as of 31 December 2023 is 47 (2022: 43).

Third Category: Risk management and Control Functions

This category includes the following functional heads, and their deputies.

- Group Financial Control
- Group Risk Management
- Group Compliance & Governance
- Group Internal Audit
- Anti-Money Laundering Unit

The number of persons in this category as of 31 December 2023 is 19 (2022:19).

3. Remuneration Structure and Components

The Group's financial remuneration framework has been linked with long-term and short-term performance objectives. The Board-approved Group Strategy is transformed into Key Performance Indicators (KPIs) and remuneration is determined based on the achievement of those KPIs towards the overall Group strategy [including financial and non-financial criteria and Key Risk Indicators (KRIs), as appropriate].

The Group has two main remuneration components:

- Fixed remuneration:

The purpose of the fixed pay is to attract and retain employees by paying market-competitive remuneration for the role, skills and experience required for the business.

Fixed remuneration includes:

1. Salaries
2. Benefits
3. Other cash allowances

These payments are fixed and do not vary with performance.

- Variable Remuneration (performance-based remuneration):

The purpose of the variable remuneration is to drive and reward performance based on annual financial and non-financial measures consistent with shareholder interests and adherence to NBK values. Variable remuneration includes:

1. Cash bonus.
2. Deferred Cash Bonus
3. Equity shares as per Phantom Shares Plan*
4. Other

These payments are not fixed and are linked to performance.

The "other" remuneration represents performance incentives for certain business units upon achieving certain stated business targets.

The Group ensures there is a prudent balance between fixed and variable remuneration to allow for the possibility of reducing remuneration, in cases of adverse financial performance.

The Cash Bonus, Deferred Cash Bonus and Phantom Shares Plan components of the variable remuneration pool are availed selectively to certain Eligible Employees.

* Phantom Shares: are notional shares which are neither issued shares nor part of the Bank's Capital. The Phantom Shares cannot be sold or circulated. Its value shall be equal to the sale price of the Bank's shares in the Stock Exchange on a certain date, and according to which the Cash Remuneration for Eligible Employees shall be calculated according to this Plan.

In case of high risk exposures, the Group would try to minimise the percentage of variable remuneration, especially for the Senior Management and Material Risk-Takers.

4. Risk-Based Remuneration Approach

NBK considers its Group risk profile when determining its annual remuneration pool; the risk profile includes the key risks to which the Group is exposed, such as strategic, credit, market, liquidity, and operation risk. The policy ensures adequate linkage between the performance and risk materialisation, loss incurrence and risk appetite of the Group.

The overall variable remuneration pool is determined using a multi-year performance assessment which takes account of relevant risk metrics. The metrics used to determine the pool are linked with performance and key risk indicators; the key risk indicators are designed and customised for each core business function and they are in line with the Group's overall risk strategy.
During the year key risk indicators (KRIs) remain linked to the overall remuneration pool without significant change from last year's KRIs.

The Group Risk Management and Group Compliance and Governance functions are independent and report to the Board Risk and Compliance Committee. The Heads of Group Risk Management and Group Compliance and Governance are assessed by the Board Risk and Compliance Committee on an annual basis. The total remuneration for each of these positions is determined and approved by the Board Risk and Compliance Committee as a fully independent party.

5. An Overview on the Key Performance Indicators

The overall strategy of the Group is set and approved by the Board and translated into KPIs. These are then documented and communicated to ensure the alignment of management activities to the strategy applied by Senior Management. These KPIs are monitored and reported to the Board on a regular basis.
Examples of Group-level KPIs:

- Return on Assets
- Return on Equity
- Cost-income ratio
- Capital Adequacy
- Capital Adequacy Ratio
- Non-performing Assets (NPA)

Remuneration is determined based on the achievement of KPIs towards the overall Group strategy. These include financial and non-financial criteria and Key Risk Indicators (KRIs) at Group level. The annual remuneration pool for this year was approved by the Board of Directors after review and discussion with the Board Nomination and Remuneration Committee. The percentage approved for remuneration was determined based on the Group-level KPIs mentioned above.

Remuneration parameters for core units (revenue-generating functions) are determined based on the stated KPIs into which risk limits are cascaded. Remuneration for other business units, such as support functions (excluding risk and control functions), is based only on stated KPIs.

The KPIs for the risk management and control functions are based on the objectives of the control function itself. They form an objective base distinct from the business performance base.

The performance appraisal form for each position identifies the quantitative weights of individual KPIs; the final scoring of the appraisal is linked with a quantitative formula to determine fixed remuneration (salary increments) and variable remuneration (annual bonus).

Since the overall remuneration pool of the Group is linked to Group performance (Group Net Profit), the Group adjusts the remuneration percentages in case of weak performance and business recessions.

6. Remuneration Adjustments

The annual remuneration amount (fixed and variable) is reviewed by the Board Nomination and Remuneration Committee and is then subject to review and approval by the Board of Directors.
The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organisation) is deferred. The deferment of variable remuneration applies to the Deferred Cash Bonus and Phantom Shares Plan.

The Group applies a deferment approach of up to three years and final vesting of these variable components is subject to continuing employment and the absence of risk materialisation. Claw-back applies on the non-vested portions in case risk materialises. The claw-back mechanism is applicable on the Deferred Cash Bonus and Phantom Shares Plan.

This deferred variable remuneration is governed as follows:

- Deferred over a period of three (3) years to align with the long-term performance of the Group.
- Subject to Clawback in the event of established fraud, misleading information or exceeding the approved risk limits. Control Functions personnel are subject to Clawback for 1 year and other positions are subject to Clawback for three (3) years.

Quantitative Information

1. During the year, the Board Nomination and Remuneration Committee met three times. Board of Directors members (Executive Board member, Non-Executive Board members and the Independent Board members) received remuneration amounting to KD 70 thousand each (total of KD 770 thousand) for their services as Board members. Board of Directors' remuneration is subject to the approval of shareholders at the Annual General Meeting.
2. The number of persons (Senior Management and Material Risk-Takers) eligible for variable remuneration is 65 persons and they represent 2.93%of the overall NBK total staff number eligible for variable remuneration for 2023
3. The total number of persons (Senior Management and Material Risk-Takers) is 65 persons. Their total remuneration for 2023 is KD 23,356thousand.
4. The number of employees who received sign-on awards during the year is Nil.
5. The total amount of end-of-service benefit paid during 2023 is KD 37 thousand, this is related to 1 person (Senior Management and Material Risk-Takers).

Senior Management:

Table 28

Total salaries & remuneration granted during reported period	Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:		
- Cash	7,564	Nil
Variable remuneration:		
- Cash	10,848	Nil
- Phantom Shares	Nil	1,949
- Others (Note 1)	335	Nil

Material Risk-Takers:

Table 29

Total salaries & remuneration granted during reported period	Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:		
- Cash	7,039	Nil
Variable remuneration:		
- Cash	10,132	
- Phantom Shares	Nil	1,777
- Others (Note 1)	867	Nil

Financial and Risk Control:

Table 30

Total salaries & remuneration granted during reported period	Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:		
- Cash	1,862	Nil
Variable remuneration:		
- Cash	795	4
- Phantom Shares	Nil	425
- Others (Note 1)	Nil	Nil

Note 1: This consists of other performance incentives

Total remuneration paid as per employee categories

Table 31

Employees Category	Number of employees in this category	Grand Total Remuneration Fixed and Variable granted during the reported period (KD 000s)
Senior Management	44	20,696
Material Risk-Takers	47	19,815
Financial and Risk Control	19	3,086

VI. Appendices

1. Regulatory Capital Composition: Common Disclosure Template

Table 32

Row Number		KD 000s
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital plus related stock surplus	792,995
2	Retained earnings	1,750,695
3	Accumulated other comprehensive income (and other reserves)	1,174,458
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	232,846
6	Common Equity Tier 1 capital before regulatory adjustments	3,950,993
	Common Equity Tier 1 capital : regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	(337,181)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(171,235)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash flow hedge reserve	-
12	Shortfall of provisions to expected losses(based on the Internal Models Approach, if applied)	-
13	Securitisation gain on sale	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross holdings in common equity of banks, Fis, and insurance entities	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued share capital(amount above 10% threshold of bank's CET1 capital)	-
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	

Row Number		KD 000s
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	Total regulatory adjustments to Common Equity Tier 1	(508,416)
29	Common Equity Tier 1 capital (CET1)	3,442,577
	Additional Tier 1 capital : instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	439,032
31	of which: classified as equity under applicable accounting standards	439,032
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	92,744
35	of which: instruments issued by subsidiaries subject to phase out	
36	Additional Tier 1 capital before regulatory adjustments	531,776
	Additional Tier 1 capital : regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation(net of eligible short positions)	-
41	National specific regulatory adjustments	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	531,776
45	Tier 1 capital (T1 = CET1 + AT1)	3,974,353
	Tier 2 capital : instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	241,702
47	Directly issued capital instruments subject to phase out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	49,766
49	of which: instruments issued by subsidiaries subject to phase out	-
50	General Provisions included in Tier 2 Capital	306,421
51	Tier 2 capital before regulatory adjustments	597,889
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued common share capital of the entity(amount above 10% threshold)	-
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-

Row Number		KD 000s
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	
58	Tier 2 capital (T2)	597,889
59	Total capital (TC = T1 + T2)	4,572,242
60	Total risk-weighted assets	26,469,664
	Capital ratios and buffers	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.0%
62	Tier 1 (as percentage of risk-weighted assets)	15.0%
63	Total capital (as percentage of risk-weighted assets)	17.3%
64	Institution specific buffer requirement (minimum CET1 requirement plus (a)capital conservation buffer plus (b)countercyclical buffer requirements plus (c)DSIB buffer requirement expressed as a percentage of risk-weighted assets)	9.0%
65	of which: (a) capital conservation buffer requirement	
66	of which: (b) bank specific countercyclical buffer requirement	-
67	of which: (c) DSIB buffer requirement	2.0%
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	6.0%
	National minima	
69	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	7.0%
70	Tier 1 minimum ratio	8.5%
71	Total capital minimum ratio excluding Counter-cyclical and D-SIB buffers	10.5%
	Amounts below the thresholds for deduction(before risk weighting)	
72	Non-significant investments in the capital of other financials	31,401
73	Significant investments in the common stock of financial entities	5,903
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	729,345
77	Cap on inclusion of allowances in Tier 2 under standardised approach	306,421
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings- based approach (prior to application of cap)	-
79	Cap on inclusion of allowances in Tier 2 under internal ratings-based approach	-

2. Regulatory Capital: Main Features Template

The Bank's share capital as at 31 December 2023 comprised issued and fully-paid-up equity shares (note 19 of the Group's consolidated financial statements), and is eligible as Common Equity Tier 1 Capital at Group and Solo level.

In addition, the following instruments qualify as eligible Regulatory Capital

1	**Issuer**	NBK Tier 1 Limited	NBK Tier 1 Financing (2) Limited	National Bank of Kuwait S.A.K.P.	NBK Tier 2 Limited
2	**Unique identifier**	XS2306962841	XS2010037922		XS2252513713 / 225251371
3	**Governing law(s) of the instrument**	English law (other than the Issuer subordination provisions which are governed by the laws of the Dubai International Financial Centre)	English Law; except for Status of Capital Securities and Subordination which are governed by laws of Dubai International Financial Centre.	Laws of the State of Kuwait	English Law; except for Status of Capital Securities and Subordination which are governed by laws of Dubai International Financial Centre.
	Regulatory treatment				
4	Type of Capital	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
5	Eligible at solo/ group / group & solo	Group and Solo	Group and Solo	Group and Solo	Group and Solo
6	Instrument type	Capital Securities by Issuer Irrevocably guaranteed by National Bank of Kuwait S.A.K.P. on Subordinated basis	Capital Securities by Issuer Irrevocably guaranteed by National Bank of Kuwait S.A.K.P. on Subordinated basis	Subordinated Debt	Subordinated Debt
7	Amount recognised in Regulatory Capital	USD 700,000,000 (KD 211,295,000)	USD 750,000,000 (KD 227,737,500)	KD 150,000,000/-	USD 300,000,000/-
8	Par value of instrument	USD 1,000/-	USD 1,000/-	KD 50,000/-	USD 1,000/-
9	Accounting classification	Shareholders' equity	Shareholders' equity	Liability-Amortised Cost	Liability-Amortised Cost
10	Original date of issuance	24th February 2021	27th November 2019	18th November 2020	24th November'2020
11	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
12	Original maturity date	No maturity	No maturity	18th November 2030	24th November'2030
13	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
14	Optional call date, contingent call dates and redemption amount	Optional Call date: Six months prior to the First Reset Date : 24th February 2027, outstanding principal together with interest accrued (in whole)	Optional Call date: Any date three months prior to 27 November 2025; Capital Event or Tax Event Call; Redemption amount in case of redemption date before First Reset Date: 101% of Principal; and in case of redemption date after First Reset Date at 100% Principal plus Accrued Interest	Optional Call date: 18 November 2025 or any Interest Payment hereafter; Capital Event or Taxation Reasons Principal (in whole or in part) plus Accrued Interest	Optional Call date: 25 November 2025 or any Interest Payment Date thereafter; Capital Event or Taxation Reasons; Principal (in whole but not in part) plus Accrued Interest

15	Subsequent call dates, if applicable	Semi-Annually	Semi-Annually	Semi-Annually	Semi-Annually
	Coupons / dividends				
16	Fixed or floating dividend /coupon	Fixed for first 6-year period; thereafter reset every year to a new rate to be the aggregate of the margin and the interpolated 6-year US Treasury rate.	Fixed for first 6-year period; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD Treasury rate plus margin	Fixed Tranche: Fixed for first 5 years and reset thereafter to a new fixed rate for subsequent period. Floating Tranche: Floating rate determined semi-annually subject to a cap.	Fixed for first 5- year period, thereafter reset to prevailing 5-year US Treasury rate plus margin.
17	Coupon rate and any related index	3.625% p.a. Fixed-Rate up to (but excluding) , 24th February'2027, there-after reset every 6 years to a new rate equal to the interpolated 6-year US Treasury rate plus 2.875% margin	4.500% p.a. Fixed-Rate up to (but excluding) 27 November 2025; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD Treasury rate plus 2.832% p.a. margin	Fixed Tranche: 4.75% p.a. Fixed for 5 years and reset thereafter to a new fixed rate of the then CBK Discount Rate plus 3.25% p.a. for subsequent period. Floating Tranche: CBK Discount Rate plus 3.00% determined semi-annually subject to a cap of prevailing Fixed Interest Rate plus 1%	2.50% p.a. Fixed rate for first 5-year period, thereafter reset to 210.8 bps over the prevailing 5-year US Treasury rate.
18	Existence of a dividend stopper	Yes	Yes	No	No
19	Fully discretionary, partially discretionary or mandatory	Payment of Interest may be cancelled at the sole-discretion of the Issuer and the Guarantor. Mandatory cancellation upon: -Insufficient Distributable Funds on a consolidated basis -Breach of any applicable capital requirements -Regulatory requirement to cancel	Payment of Interest may be cancelled at the sole-discretion of the Issuer and the Guarantor. Mandatory cancellation upon: -Insufficient Distributable Funds on a consolidated basis -Breach of any applicable capital requirements -Regulatory requirement to cancel	Payment of Interest is Mandatory.	Payment of Interest is Mandatory.
20	Existence of step-up or other incentive to redeem	No	No	No	No
21	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Not Applicable	Not Applicable
22	**Convertible or non-convertible**	**Non-convertible**	**Non-convertible**	**Non-convertible**	**Non-convertible**
23	If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
24	If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable
25	If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable
26	If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable
27	If convertible, specify instrument type convertible into	Not Applicable	Not Applicable	Not Applicable	Not Applicable
28	If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable	Not Applicable	Not Applicable
29	**Write-down feature**	**Yes**	**Yes**	**Yes**	**Yes**
30	If write-down, write-down trigger(s)	Determination by Regulator on grounds of non-viability or an immediate injection of capital is required, by way of emergency intervention to remain viable.	Determination by Regulator on grounds of non-viability or an immediate injection of capital is required, by way of emergency intervention to remain viable.	Determination by Regulator on grounds of non-viability or an immediate injection of capital is required, by way of emergency intervention to remain viable.	Determination by Regulator on grounds of non-viability or an immediate injection of capital is required, by way of emergency intervention to remain viable.
31	If write-down, full or partial	Can be partial or full	Can be partial or full	Can be partial or full	Can be partial or full
32	If write-down, permanent or temporary	Permanent	Permanent	Permanent	Permanent
33	If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable	Not Applicable	Not Applicable
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior only to Ordinary Equity shares; i.e. qualifying CET1 instruments	Senior only to Ordinary Equity shares; i.e. qualifying CET1 instruments	Senior only to Ordinary Equity shares and qualifying Tier 1 instruments	Senior only to Ordinary Equity shares and qualifying Tier 1 instruments
35	Non-compliant transitioned features	No	No	No	No
36	If yes, specify non-compliant features	Not Applicable	Not Applicable	Not Applicable	Not Applicable

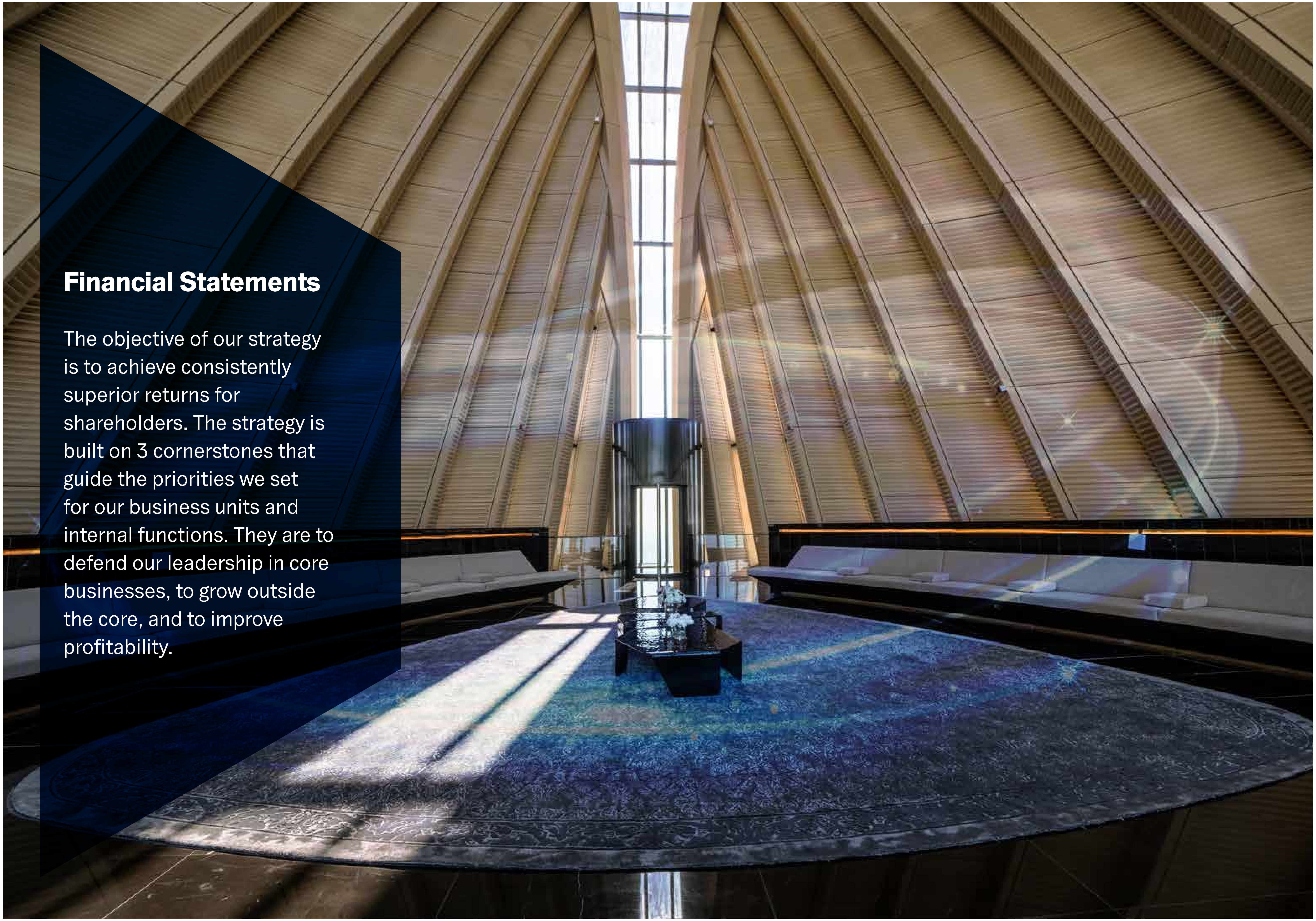
3. Leverage Ratio: Common Disclosure Template

Table 33

	Item	KD 000s
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	37,664,991
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(508,416)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**37,156,575**
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	96,330
5	Add-on amounts for PFE associated with all derivatives transactions	286,533
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**382,864**
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	13,368,755
18	(Adjustments for conversion to credit equivalent amounts)	(9,918,386)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**3,450,369**
20	**Tier 1 capital**	**3,974,353**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**40,989,808**
22	**Basel III leverage ratio**	**9.7%**

4. Glossary Of Terms

Term	Definition
Additional Tier 1 Capital	Additional Tier 1 Capital is a Basel III defined concept and consists of high quality capital. It essentially includes providing a permanent and unrestricted commitment of funds, is freely available to absorb losses at the point of non-viability, ranks behind the claims of depositors and other more senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions.
Basel III	Refers to the "Capital Adequacy Ratio-Basel III for conventional banks" regulations issued by Central Bank of Kuwait Circular number 2/RB, RBA/A336/2015 dated 24 June 2015
Capital Conservation Buffer	A capital conservation buffer of 2.5% (Nil from 1st April 2020 to 31st December 2021) (expressed as a percentage of risk-weighted assets) has been subsumed in the Minimum Common Equity Tier 1 Capital requirement level.
Countercyclical Buffer	A countercyclical buffer requirement that varies from 0% to 2.5% which, when triggered as a requirement at the discretion of Central Bank of Kuwait, is required to be met from Common Equity Tier 1 capital.
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital is the highest quality of capital available reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It essentially includes ordinary share capital, retained earnings and reserves less prescribed deductions.
Domestic Systemically-Important Bank Buffer	A Domestic Systemically-Important Bank Buffer that varies from 0.5% to 2% required to be met in the form of Common Equity Tier 1 Capital which will be determined at the level of each bank identified as systemically important by Central Bank of Kuwait on an annual basis.
ECAI	An External Credit Assessment Institution (ECAI) as recognised by Central Bank of Kuwait from time to time for the purposes of the assigning risk-weights to obligors under the Standardised Approach.
Leverage Ratio	Calculated in accordance with the requirements of CBK Circular number 2/BS/342/2014 dated 21 October 2014. Leverage ratio is defined as the "capital" measure (being Tier 1 capital) divided by the "exposure" measure (being the sum of on-balance sheet assets, derivative exposures and off-balance sheet exposures).
Liquidity Coverage Ratio (LCR)	Calculated in accordance with the requirements of CBK Circular number 2/RB/345/2014 dated 23 December 2014. The ratio is calculated by taking a financial institution's stock of high quality liquid assets ("HQLAs") – which include low-risk, highly marketable asset classes, designed to provide significant sources of liquidity in such a stress scenario – and dividing it by its projected net cash outflows over the immediately following 30-day period.
Net-Stable Funding Ratio (NSFR)	Calculated in accordance with the requirements of CBK Circular number 2/BS/356/2015 dated 25 October 2015 from 2018. The NSFR is defined as the amount of available stable funding ("**ASF**") relative to the amount of required stable funding ("RSF"). ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. RSF is defined as the portion of assets and off-balance sheet exposures expected to be funded on an ongoing basis over a one-year horizon. The amount of the stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.
Significant Investments	Significant Investments in capital of banking, financial and insurance entities are those where the bank owns more than 10% of the issued common share capital of the issuing entity or where the entity is an affiliate of the bank.
Tier 2 Capital	Tier 2 Capital consists of eligible capital instruments that provide an unrestricted commitment of funds for a defined period that is available to absorb losses at the point of non-viability, subordinated to claims of depositors in the event of wind-up. Limited recognition of general provisions held against future, presently-unidentifiable losses are eligible for inclusion in Tier 2 Capital.



Financial Statements

The objective of our strategy is to achieve consistently superior returns for shareholders. The strategy is built on 3 cornerstones that guide the priorities we set for our business units and internal functions. They are to defend our leadership in core businesses, to grow outside the core, and to improve profitability.

Board of Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2023.

2023 Financial Performance

The Group has delivered strong financial results for the year 2023, notwithstanding challenges arising from macroeconomic and geopolitical situations, while benefitting from increase in benchmark interest rates, business activities and volume growth.

The Group reported net profit attributable to shareholders of the Bank of KD 560.6 million compared to KD 509.1 million for 2022, an increase of 10.1%. Operating profit amounted to KD 740.3 million compared to KD 623.6 million in 2022, an increase of 18.7%.

Net interest income and net income from Islamic financing totaled KD 905.1 million (2022: KD 755.8 million). Net fees and commissions increased to KD 196.6 million (2022: KD 181.8 million). Net investment income was KD 27.5 million in 2023 (2022: KD 15.7 million). Net gains from dealing in foreign currencies decreased to KD 36.1 million in 2023 (2022: KD 55.4 million).

Total operating expenses were KD 426.5 million (2022: KD 386.1 million). The cost to income ratio for 2023 was 36.6% (2022: 38.2%).

The provision charge for credit losses and impairment losses were KD 103.1 million (2022: KD 45.4 million).

The return on average equity was 15% (2022: 14.3%).

2023 Balance Sheet

Total assets of the Group grew to KD 37,665.0 million from KD 36,338.4 million at the end of 2022, an increase of 3.7%. Loans, advances, and Islamic financing to customers grew by KD 1,282.6 million to KD 22,281.0 million, an increase of 6.1%. Investment securities grew by KD 1,250.1 million to KD 6,884.8 million, an increase of 22.2%.

Customer deposits grew to KD 21,949.0 million from KD 20,178.1 million at the end of 2022, an increase of 8.8%. The Group benefits from a loyal Kuwaiti customer base whose deposits remain a continuing source of stable funding. Due to banks were KD 3,963.8 million (2022: KD 4,018.0 million) and Deposits from other financial institutions were KD 3,725.6 million (2022: KD 3,740.9 million). Certificates of deposits issued were KD 822.9 million (2022: KD 1,801.6 million) and other borrowed funds were KD 1,331.0 million (2022: KD 1,243.6 million).

The Group maintained a strong liquidity position with cash, short term funds, Central Bank of Kuwait bonds and Kuwait Government treasury bonds amounting to KD 5,435.6 million at the year-end. Deposits with banks were KD 1,318.1 million at the year end. The Group has continued to maintain Basel III liquidity ratios well in excess of minimum requirements.

The Group's general provisions in respect of on-balance sheet credit facilities were KD 697.6 million at the year-end (2022: KD 660.0 million), whilst specific provisions were KD 165.3 million at the year-end (2022: KD 167.9 million). The Group operates a conservative credit policy with a balanced diversification across all business sectors and geographical areas. Loan collateral profiles and values are continually monitored to ensure that optimum protection is afforded to the Group at all times.

Cash and non-cash credit facilities provided by the Bank to Board Members or Executive Officers and their related parties were KD 72.6 million at the year-end against collateral of KD 153.1 million. Deposits of Board Members or Executive Officers and their related parties were KD 36.9 million. Proposed remuneration to Directors of the Bank was KD 770 thousand.

Equity

Total equity attributable to the shareholders of the Bank after deducting the proposed cash dividend of KD 198.2 million was KD 3,685.5 million (2022: KD 3,434.2 million).

The Basel III capital adequacy ratio was 17.3% at the year-end (2022: 17.4%) as compared to the CBK prescribed regulatory minimum of 15% (2022: 13.5%). The leverage ratio was 9.7% at the year-end (2022: 9.4%) as compared to the CBK prescribed regulatory minimum of 3%.

Capital Market Authority Requirements

The necessary measures were taken to ensure compliance with Law No (7) of 2010, and subsequent Executive By-Laws relating to the Establishment of the Capital Market Authority and Organization of Securities Activities.

The Bank maintains a record for reporting the Bank's shares owned by the Insider Persons (or their dependent children) to the Capital Market Authority and Boursa Kuwait Company.

Bonus Shares, Dividends and Proposed Appropriations

Net profit for the year was principally allocated as follows:
1. KD 277.5 million to the dividend account for the distribution of a cash dividend. Proposed final dividend of KD 198.2 million (25 fils per share) subject to the approval of shareholders at the annual general meeting (proposed dividend - 25 fils in 2022). An interim cash dividend of KD 79.3 million (10 fils per share) was paid during 2023 (10 fils per share in 2022).
2. KD 39.6 million to the share capital account to cover the issuance of bonus shares equal to 5% of share capital at the end of 2023 (5% for 2022) (equivalent to 396,497,281 shares with a nominal value of 100 fils per share) subject to the approval of shareholders at the annual general meeting.
3. KD 18.9 million to the statutory reserve account to make the statutory reserve in excess of 50% of share capital.
4. KD 21.9 million to interest and profit payment towards perpetual Tier 1 Capital Securities and perpetual Tier 1 Sukuk.
5. KD 202.7 million to retained earnings.

Financial highlights

KD million	2023	2022	2021
Total assets	37,665.0	36,338.4	33,256.6
Loans, advances and Islamic financing to customers	22,281.0	20,998.4	19,722.5
Customer deposits	21,949.0	20,178.1	18,281.0
Net operating income	1,166.8	1,009.7	899.8
Profit attributable to shareholders of the Bank	560.6	509.1	362.2

Independent Auditors' Report to The Shareholders of National Bank of Kuwait S.A.K.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have identified the following key audit matters:

a) Credit losses on loans, advances and Islamic financing to customers

The recognition of credit losses on loans, advances and Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with the CBK guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies and in Note 13 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral.

Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the current inflationary pressure and high interest rate environment.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date, which included rescheduled credit facilities, and evaluated the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. We involved our specialists to review the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") and the overlays considered by management in view of the ongoing economic impacts, in order to determine ECL taking into consideration CBK guidelines. For a sample of credit facilities, we have evaluated the Group's staging criteria and computation of ECL including the eligibility and value of collateral considered in the ECL models used by the Group. We have also evaluated the various inputs and assumptions used by the Group's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, which included rescheduled credit facilities, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

b) Impairment of goodwill in Egypt

The Group had a goodwill with carrying value of KD 20,174 thousand in respect of its component in Egypt which is fully impaired as at 31 December 2023. The impairment tests of goodwill performed by management in the component of Egypt are significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgments on part of management, especially due to the current inflationary pressure and high interest rate environment. Estimates of future cash flows are based on management's views of variables such as the growth in the banking sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill in the component of Egypt as a key audit matter.

As part of our audit procedures, where "value in use" is the basis to compute the recoverable value we obtained management's impairment calculations and tested the reasonableness of key assumptions, including profit forecasts and the selection of growth rates and discount rates. We also involved our valuation specialists and challenged management to substantiate the assumptions, including the comparison of relevant assumptions to industry benchmarks and economic forecasts. We tested the integrity of supporting calculations and corroborated certain information with third party sources. We agreed the underlying cash flows to approved budgets and assessed growth rates and discount rates by comparison with third party information, the Group's cost of capital and relevant risk factors. Future cash flow assumptions were also assessed through comparison to current trading performance against budget and forecasts, considering the historical accuracy of budgeting and forecasting and the understanding of the reasons for growth profiles used. We further evaluated management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We also assessed the controls over the impairment process to determine if they had been appropriately designed and implemented.

We also assessed the adequacy of the Group's disclosures regarding those assumptions, which are disclosed in Note 15 to the consolidated financial statements, against the requirements of IFRSs.

Independent Auditors' Report to The Shareholders of National Bank of Kuwait S.A.K.P. (continued)

Other Information included in the Group's 2023 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's 2023 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2023 after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by CBK for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2023 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2023 that might have had a material effect on the business of the Bank or on its financial position.

ABDULKARIM AL SAMDAN
LICENCE NO. 208 A
EY
AL-AIBAN, AL-OSAIMI & PARTNERS

BADER A. AL-WAZZAN
LICENCE NO. 62 A
DELOITTE & TOUCHE
AL WAZZAN & CO.

31 January 2024
Kuwait

Consolidated Financial Statements

Notes To The Consolidated Financial Statements

Consolidated Statement of Income

For the year ended 31 December 2023

	Notes	**2023 KD 000's**	2022 KD 000's	**2023 USD 000's**	2022 USD 000's
Interest income	4	**1,632,748**	947,589	**5,322,732**	3,089,125
Interest expense	5	**908,154**	363,821	**2,960,567**	1,186,051
Net interest income		**724,594**	583,768	**2,362,165**	1,903,074
Murabaha and other Islamic financing income		**402,482**	287,558	**1,312,085**	937,435
Finance cost and Distribution to depositors		**221,939**	115,487	**723,518**	376,486
Net income from Islamic financing		**180,543**	172,071	**588,567**	560,949
Net interest income and net income from Islamic financing		**905,137**	755,839	**2,950,732**	2,464,023
Net fees and commissions	6	**196,606**	181,778	**640,932**	592,593
Net investment income	7	**27,466**	15,736	**89,539**	51,299
Net gains from dealing in foreign currencies		**36,123**	55,379	**117,760**	180,535
Other operating income		**1,435**	1,009	**4,678**	3,289
Non-interest income		**261,630**	253,902	**852,909**	827,716
Net operating income		**1,166,767**	1,009,741	**3,803,641**	3,291,739
Staff expenses		**233,156**	220,125	**760,085**	717,604
Other administrative expenses		**147,342**	125,430	**480,332**	408,900
Depreciation of premises and equipment		**44,314**	38,922	**144,463**	126,885
Amortisation of intangible assets	15	**1,647**	1,647	**5,369**	5,369
Operating expenses		**426,459**	386,124	**1,390,249**	1,258,758
Operating profit before provision for credit losses and impairment losses		**740,308**	623,617	**2,413,392**	2,032,981
Provision charge for credit losses and impairment losses	8	**103,068**	45,363	**336,000**	147,882
Operating profit before taxation and directors' remuneration		**637,240**	578,254	**2,077,392**	1,885,099
Taxation	9	**48,097**	47,422	**156,795**	154,595
Directors' remuneration	27	**770**	770	**2,511**	2,511
Profit for the year		**588,373**	530,062	**1,918,086**	1,727,993
Attributable to:					
Shareholders of the Bank		**560,620**	509,085	**1,827,612**	1,659,609
Non-controlling interests		**27,753**	20,977	**90,474**	68,384
		588,373	530,062	**1,918,086**	1,727,993
Basic earnings per share attributable to shareholders of the Bank	10	**68 fils**	61 fils	**22 Cents**	20 Cents

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	Note	2023 KD 000's	2022 KD 000's	2023 USD 000's	2022 USD 000's
Profit for the year		588,373	530,062	1,918,086	1,727,993
Other comprehensive income:					
Investment in debt securities measured at FVOCI:					
Net change in fair value		4,506	3,158	14,689	10,295
Net transfer to consolidated statement of income		376	5,129	1,226	16,720
		4,882	8,287	15,915	27,015
Exchange differences on translation of foreign operations		(13,699)	(125,273)	(44,658)	(408,387)
Other comprehensive loss for the year reclassifiable to consolidated statement of income in subsequent years		(8,817)	(116,986)	(28,743)	(381,372)
Net gain (loss) on investments in equity instruments designated at FVOCI		601	(4,446)	1,959	(14,494)
Actuarial gain in respect of defined benefit plans	18	3,969	8,252	12,939	26,901
Other comprehensive income for the year not reclassifiable to consolidated statement of income in subsequent years		4,570	3,806	14,898	12,407
Other comprehensive loss for the year		(4,247)	(113,180)	(13,845)	(368,965)
Total comprehensive income for the year		584,126	416,882	1,904,241	1,359,028
Attributable to:					
Shareholders of the Bank		553,485	398,266	1,804,352	1,298,341
Non-controlling interests		30,641	18,616	99,889	60,687
		584,126	416,882	1,904,241	1,359,028

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2023

	Note	2023 KD 000's	2022 KD 000's	2023 USD 000's	2022 USD 000's
Assets					
Cash and short term funds	11	4,384,700	5,323,452	14,294,050	17,354,367
Central Bank of Kuwait bonds	14	856,815	881,241	2,793,203	2,872,831
Kuwait Government treasury bonds	14	194,111	211,629	632,799	689,906
Deposits with banks	12	1,318,121	1,490,286	4,297,053	4,858,308
Loans, advances and Islamic financing to customers	13	22,281,004	20,998,416	72,635,710	68,454,494
Investment securities	14	6,884,821	5,634,672	22,444,404	18,368,939
Land, premises and equipment		506,812	474,724	1,652,199	1,547,593
Goodwill and other intangible assets	15	508,416	534,936	1,657,428	1,743,883
Other assets	16	730,191	789,007	2,380,411	2,572,150
Total assets		37,664,991	36,338,363	122,787,257	118,462,471
Liabilities					
Due to banks		3,963,802	4,017,979	12,921,930	13,098,546
Deposits from other financial institutions		3,725,629	3,740,877	12,145,490	12,195,198
Customer deposits		21,948,957	20,178,062	71,553,242	65,780,153
Certificates of deposit issued		822,899	1,801,623	2,682,637	5,873,262
Other borrowed funds	17	1,331,006	1,243,563	4,339,058	4,053,995
Other liabilities	18	966,123	721,313	3,149,545	2,351,469
Total liabilities		32,758,416	31,703,417	106,791,902	103,352,623
Equity					
Share capital	19	792,995	755,233	2,585,151	2,462,047
Proposed bonus shares	20	39,649	37,762	129,255	123,104
Statutory reserve	19	396,499	377,618	1,292,580	1,231,029
Share premium account	19	803,028	803,028	2,617,858	2,617,858
Treasury share reserve	19	34,961	34,961	113,972	113,972
Other reserves	19	1,816,640	1,614,386	5,922,217	5,262,872
Equity attributable to shareholders of the Bank		3,883,772	3,622,988	12,661,033	11,810,882
Perpetual Tier 1 Capital Securities	21	439,032	439,032	1,431,237	1,431,237
Non-controlling interests	24	583,771	572,926	1,903,085	1,867,729
Total equity		4,906,575	4,634,946	15,995,355	15,109,848
Total liabilities and equity		37,664,991	36,338,363	122,787,257	118,462,471

Hamad Mohamed Al-Bahar
Chairman

Isam J. Al Sager
Vice Chairman and Group Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	2023 KD 000's	2022 KD 000's	2023 USD 000's	2022 USD 000's
Operating activities					
Profit for the year		588,373	530,062	1,918,086	1,727,993
Adjustments for:					
Net investment income	7	(27,466)	(15,736)	(89,539)	(51,299)
Depreciation of premises and equipment		44,314	38,922	144,464	126,885
Amortisation of intangible assets	15	1,647	1,647	5,369	5,369
Provision charge for credit losses and impairment losses	8	103,068	45,363	336,000	147,883
Taxation	9	48,097	47,422	156,795	154,595
Cash flows from operating activities before changes in operating assets and liabilities		758,033	647,680	2,471,175	2,111,426
Changes in operating assets and liabilities:					
Central Bank of Kuwait bonds		24,426	(51,187)	79,628	(166,869)
Kuwait Government treasury bonds		20,138	188,596	65,650	614,820
Deposits with banks		174,677	(612,423)	569,444	(1,996,489)
Loans, advances and Islamic financing to customers		(1,354,615)	(1,528,359)	(4,416,023)	(4,982,426)
Other assets		46,773	(122,294)	152,479	(398,676)
Due to banks		(54,177)	(79,345)	(176,616)	(258,663)
Deposits from other financial institutions		(15,248)	605,672	(49,708)	1,974,481
Customer deposits		1,770,895	2,254,665	5,773,089	7,350,171
Certificates of deposit issued		(978,724)	462,269	(3,190,624)	1,506,989
Other liabilities		178,390	90,925	581,548	296,414
Tax paid		(39,587)	(33,856)	(129,053)	(110,370)
Net cash from operating activities		530,981	1,822,343	1,730,989	5,940,808
Investing activities					
Purchase of investment securities		(3,633,073)	(4,131,965)	(11,843,759)	(13,470,139)
Proceeds from sale/redemption of investment securities		2,480,036	2,871,878	8,084,877	9,362,275
Dividend income	7	2,570	2,272	8,378	7,407
Proceeds from sale of a foreign branch		-	25,597	-	83,446
Proceeds from sale of land, premises and equipment		1,817	2,732	5,923	8,906
Purchase of land, premises and equipment		(56,260)	(61,505)	(183,406)	(200,505)
Change in holding in subsidiaries		(11,884)	(7,889)	(38,741)	(25,718)
Purchase of investment properties		(38,494)	(22,914)	(125,490)	(74,699)
Proceeds from sale of investment properties		1,281	12,625	4,176	41,157
Net cash used in investing activities		(1,254,007)	(1,309,169)	(4,088,042)	(4,267,870)
Financing activities					
Proceeds from issue of unsecured sukuk by a subsidiary		-	152,225	-	496,251
Redemption of Global Medium term notes		-	(229,238)	-	(747,312)
Proceeds from capital increase in a subsidiary		-	80,238	-	261,575
Interest paid on Perpetual Tier 1 Capital Securities		(18,224)	(18,119)	(59,410)	(59,068)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary		(6,079)	(6,068)	(19,818)	(19,782)
Net movement in other medium and short term borrowing		86,290	47,335	281,304	154,311
Dividends paid		(268,107)	(291,304)	(874,025)	(949,645)
Dividends paid by subsidiaries to non-controlling interests		(9,606)	(6,782)	(31,315)	(22,109)
Net cash used in financing activities		(215,726)	(271,713)	(703,264)	(885,779)
(Decrease) increase in cash and short term funds		(938,752)	241,461	(3,060,317)	787,159
Cash and short term funds at the beginning of the year		5,323,452	5,081,991	17,354,367	16,567,208
Cash and short term funds at the end of the year	11	4,384,700	5,323,452	14,294,050	17,354,367

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Equity attributable to shareholders of the Bank									KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury share reserve	Other reserves (Note 19e)	Total	Perpetual Tier 1 Capital Securities	Non - controlling interests	Total equity
Balance as at 1 January 2023	755,233	37,762	377,618	803,028	34,961	1,614,386	3,622,988	439,032	572,926	4,634,946
Profit for the year	-	-	-	-	-	560,620	560,620	-	27,753	588,373
Other comprehensive (loss) income	-	-	-	-	-	(7,135)	(7,135)	-	2,888	(4,247)
Total comprehensive income	-	-	-	-	-	553,485	553,485	-	30,641	584,126
Transfer to statutory reserve (Note 19b)	-	-	18,881	-	-	(18,881)	-	-	-	-
Issue of bonus shares (Note 19a)	37,762	(37,762)	-	-	-	-	-	-	-	-
Final cash dividend paid (2022)	-	-	-	-	-	(188,808)	(188,808)	-	-	(188,808)
Interim cash dividend paid –10 fils per share (Note 20)	-	-	-	-	-	(79,299)	(79,299)	-	-	(79,299)
Proposed bonus shares (Note 20)	-	39,649	-	-	-	(39,649)	-	-	-	-
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	(18,224)	(18,224)	-	-	(18,224)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	(3,664)	(3,664)	-	(2,415)	(6,079)
Change in holding in subsidiaries	-	-	-	-	-	(3,906)	(3,906)	-	(7,978)	(11,884)
Dividend paid to non-controlling interests by subsidiaries	-	-	-	-	-	-	-	-	(9,606)	(9,606)
Other movements	-	-	-	-	-	1,200	1,200	-	203	1,403
At 31 December 2023	792,995	39,649	396,499	803,028	34,961	1,816,640	3,883,772	439,032	583,771	4,906,575

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

KD 000's

	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury share reserve	Other reserves (Note 19e)	Total	Perpetual Tier 1 Capital Securities	Non - controlling interests	Total equity
	Equity attributable to shareholders of the Bank									
Balance as at 1 January 2022	719,269	35,964	359,637	803,028	34,961	1,586,708	3,539,567	439,032	488,518	4,467,117
Profit for the year	-	-	-	-	-	509,085	509,085	-	20,977	530,062
Other comprehensive loss	-	-	-	-	-	(110,819)	(110,819)	-	(2,361)	(113,180)
Total comprehensive income	-	-	-	-	-	398,266	398,266	-	18,616	416,882
Transfer to statutory reserve (Note 19b)	-	-	17,981	-	-	(17,981)	-	-	-	-
Issue of bonus shares (Note 19a)	35,964	(35,964)	-	-	-	-	-	-	-	-
Cash dividend paid (2021)	-	-	-	-	-	(215,781)	(215,781)	-	-	(215,781)
Interim cash dividend paid -10 fils per share (Note 20)	-	-	-	-	-	(75,523)	(75,523)	-	-	(75,523)
Proposed bonus shares (Note 20)	-	37,762	-	-	-	(37,762)	-	-	-	-
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	(18,119)	(18,119)	-	-	(18,119)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	(3,642)	(3,642)	-	(2,426)	(6,068)
Change in holding in subsidiaries	-	-	-	-	-	(2,557)	(2,557)	-	(5,332)	(7,889)
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	80,238	80,238
Dividend paid to non-controlling interests by subsidiaries	-	-	-	-	-	-	-	-	(6,782)	(6,782)
Other movements	-	-	-	-	-	777	777	-	94	871
At 31 December 2022	755,233	37,762	377,618	803,028	34,961	1,614,386	3,622,988	439,032	572,926	4,634,946

The attached notes 1 to 31 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2023

1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the directors on 15 January 2024. The Annual General Meeting of the shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Al Shuhada Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards ("IFRS") with an amendment for measuring the expected credit loss ("ECL") on credit facilities at the higher of ECL computed under IFRS 9 – 'Financial Instruments' in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures.

The above framework is hereinafter referred to as 'IFRS as adopted by CBK for use in the State of Kuwait'.

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, investment securities measured at fair value and investment properties. In addition and as more fully described below, assets and liabilities that are hedged in fair value hedging relationships are carried at fair value to the extent of the risk being hedged.

2.2 Changes in material accounting policies

New and amended standards and interpretations

The Group applied the following amendments effective from 1 January 2023:

International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)

The IASB amended the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules. The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation. Refer note 9 for further information.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practise Statement 2)

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

The amendments have an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Limited scope exceptions apply.

The Group has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

2 MATERIAL ACCOUNTING POLICIES (continued)
2.2 Changes in material accounting policies (continued)
New and amended standards and interpretations (continued)

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2023 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective
The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below.

General requirements for disclosure of sustainability-related financial information (IFRS S1) and Climate-related disclosures (IFRS S2) – 1 January 2024

In June 2023 the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. IFRS S1 includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across a Group's value chain. IFRS S2 is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities. The standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

Lack of Exchangeability (Amendments to IAS 21) – 1 January 2025

The amendments to IAS 21 specify how to assess whether a currency is exchangeable and how to determine the exchange rate when it is not. Applying the amendments, a currency is not exchangeable into the other currency if an entity can only obtain no more than an insignificant amount of the other currency at the measurement date for a specified purpose. When a currency is not exchangeable at the measurement date, an entity is required to estimate the spot exchange rate as the rate that would have applied to an orderly exchange transaction at the measurement date between market participants under prevailing economic conditions. In that case, an entity is required to disclose information that enables users of its financial statements to evaluate how the currency's lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The Group is currently evaluating the impact of these amendments. The Group will adopt it when the amendments become effective.

2.3 Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank as at 31 December each year and its subsidiaries as at the same date or a date not earlier than three months from 31 December. The financial statements of subsidiaries and associates are prepared using consistent accounting policies and are adjusted, where necessary, to bring the accounting policies in line with those of the Group. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated on consolidation.

a. Subsidiaries
Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer Note 24 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest
Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's

2 MATERIAL ACCOUNTING POLICIES (continued)
2.3 Basis of consolidation (continued)
b. Non-controlling interest (continued)

share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on changes in non-controlling interests without loss of control are recorded in equity.

c. Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Gain or loss on this transaction is computed by comparing the carrying amount of the associate at the time of loss of significant influence with the aggregate of fair value of the retained investment and proceeds from disposal. This is recognised in the consolidated statement of income.

2.4 Foreign currencies
The consolidated financial statements are presented in Kuwaiti Dinars (thousand) which is also the Bank's functional currency.

a. Translation of foreign currency transactions
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and monetary liabilities in foreign currencies (other than monetary items that form part of the net investment in a foreign operation) are translated into functional currency at rates of exchange prevailing at the reporting date. Any gains or losses are taken to the consolidated statement of income. Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of, the cumulative amount in foreign currency translation reserve relating to that foreign operation is recognised in the consolidated statement of income. Goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities are recorded at the functional currency of the foreign operation and are translated to the presentation currency at the rate of exchange prevailing at the reporting date. All resulting exchange differences are recognised in other comprehensive income and accumulated in foreign currency translation reserve within equity.

Translation gains or losses on non-monetary items are recognised in other comprehensive income when non-monetary items are measured at fair value through other comprehensive income. Translation gains or losses on non-monetary items measured at fair value through profit or loss are recognised in consolidated statement of income.

b. Translation of financial statements of foreign entities
The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated to presentation currency as follows:

The assets and liabilities are translated at rates of exchange ruling at the reporting date. Income and expense items are translated at average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income and accumulated in foreign currency translation reserve within equity and duly recognised in the consolidated statement of income on disposal of the foreign operation.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

2 MATERIAL ACCOUNTING POLICIES (continued)

2.5 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Fees which are considered as an integral part of the effective yield of a financial asset are recognised using effective yield method. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.6 Murabaha and other Islamic financing income

Income from Murabaha, Wakala and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.

2.7 Fees and commissions income

Fees and commission income are recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management and custody services that are continuously provided over an extended period of time.

2.8 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.9 Impairment of financial assets

The Group computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- loans and advances, Islamic financing to customers including credit commitments
- letters of credit and financial guarantee contracts including commitments
- investment in debt securities measured at amortised cost or FVOCI
- balances and deposits with banks

Equity investments are not subject to ECL.

Impairment of credit facilities

Credit facilities granted by the Group consists of loans and advances, Islamic financing to customers, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on credit facilities shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, or the provisions required by the CBK instructions.

Impairment of financial assets other than credit facilities

The Group recognises ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

Expected Credit Losses

The Group applies a three-stage approach to measure the expected credit loss as follows:

Stage 1: 12 month ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime ECLs and 12 month ECLs are calculated either on an individual basis or on a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of Expected Credit Loss

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are generally deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk unless this is rebutted.

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit-impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit-impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not become credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs

ECL is probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macroeconomic scenarios, etc.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

2 MATERIAL ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

Expected Credit Losses (continued)

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward-looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

Modification of loans and Islamic financing to customers

Under certain circumstances, the Group seeks to restructure loans, advances and Islamic financing to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or interest and the agreement of new loan or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated and credit impaired. Management continuously reviews modified loans and islamic financing to customers to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3. When loans, advances and Islamic financing to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms.

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. When the Group is unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

Provisions for credit losses in accordance with CBK instructions

The Group is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest/profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due but not impaired and past due and impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	Criteria	Specific provisions
Watch list	Irregular for a period of up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated statement of income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Refer Note 15 Goodwill and other intangible assets for more details on assessment of value in use. If previously recognised impairment losses have decreased, such excess impairment provision is reversed in the consolidated statement of income for non-financial assets other than goodwill.

2.11 Share based compensation

Cash settled share based compensation

The fair value of the employee services received in exchange for the cash settled share based payment is recognised as an expense, together with a corresponding increase in liability. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined using the Black Scholes model. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the consolidated statement of income.

2.12 Post-employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plans are unfunded. The present value of the defined benefit obligation is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date. Current service cost, past service cost and net interest expense on the defined benefit plans are recognized in consolidated statement of income and is included in staff expenses. Any gains or losses on re-measurement of defined benefit plans attributable to changes in actuarial assumptions are recognized in other comprehensive income and is included in Actuarial Valuation reserve.

2.13 Taxation

National Labour Support Tax, Zakat, Contribution to Kuwait Foundation for the Advancement of Sciences

National Labour Support Tax and Zakat are provided for in accordance with the applicable fiscal laws, rules and regulations. Contribution to Kuwait Foundation for the Advancement of Sciences is provided at 1% of the eligible profits in accordance with the Amiri Decree issued on 12 December 1976.

Overseas tax

Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

2.14 Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through statement of income.

2.15 Classification and measurement of financial assets

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

Notes to the Consolidated Financial Statements (continued)
31 December 2023

2 MATERIAL ACCOUNTING POLICIES (continued)
2.15 Classification and measurement of financial assets (continued)

Business model assessment
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)
The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de minimus exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets carried at amortized cost:
A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and charge for expected credit losses are recognised in the consolidated statement of income. Any gain or loss on de-recognition is recognised in the consolidated statement of income.

2 MATERIAL ACCOUNTING POLICIES (continued)
2.15 Classification and measurement of financial assets (continued)

Financial assets carried at fair value through other comprehensive income (FVOCI):

(i) Debt Securities at FVOCI
A debt security is carried at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Debt Securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of income.

(ii) Equity investments at FVOCI
Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis. Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on de-recognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at fair value through profit or loss:
Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of income when the right to the payment has been established.

The Group's financial assets are classified and measured as follows:

Cash and short term funds
Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days. Cash and short term funds are classified and carried at amortised cost using effective interest rate.

Deposits with banks
Deposits with banks are classified and carried at amortised cost using the effective interest method. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

Loans and advances to customers
Loans and advances are stated at amortised cost using the effective interest method. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

2 MATERIAL ACCOUNTING POLICIES (continued)

2.15 Classification and measurement of financial assets (continued)

Islamic financing to customers

Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market. Major islamic financing products are:

a. ***Murabaha***

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group and is stated at amortised cost.

b. ***Wakala***

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and stated at amortised cost.

c. ***Leased assets - the Group as a lessor***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortised cost using effective profit rate.

Financial investments

Group's financial investments consist of debt securities, equity investments and other investments.

Debt securities are classified as either at amortised cost or at fair value through other comprehensive income based on the business model in which these securities are managed. Debt securities are classified at fair value through profit or loss, if they do not meet SPPI criteria.

Equity investments are generally carried at fair value through profit or loss except for those specific investments for which the Group has made an election to classify at fair value through other comprehensive income.

Other investments are carried at fair value through profit or loss.

2.16 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that include the use of valuation models that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and also considering the ability to generate economic benefits by using the property in its highest and best use.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.17 Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the consolidated statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the consolidated statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price treated as interest income using the effective yield method.

2.18 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.19 Modification of financial assets and and financial liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset using the original effective interest rate and recognises the amount arising from adjusting the gross carrying amount as modification gain or loss in the Consolidated Statement of Income.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the Consolidated Statement of Income.

Interest Rate Benchmark Reform

In the context of IBOR reform, the Group's assessment of whether a change to a financial asset or financial liability is substantial is made after applying the practical expedient introduced by Interest Rate Benchmark Reform, Amendments to IFRS 9, Phase 2. This practical expedient allows changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform to be treated as changes to a floating interest rate to that instrument, if the transition from the IBOR benchmark rate to the alternative RFR takes place on an economically equivalent basis. In such cases, the Group updates the effective interest rate to reflect the change in an interest rate benchmark from IBOR to Risk Free Rate (RFR) without adjusting the carrying amount.

When additional changes are made, which are not economically equivalent, the Group applies accounting policy on accounting for modification of financial assets and financial liabilities.

2.20 De-recognition of financial assets and and financial liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired, or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

2 MATERIAL ACCOUNTING POLICIES (continued)

2.20 De-recognition of financial assets and and financial liabilities (continued)

Financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability.

2.21 Derivative financial instruments and hedge accounting

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised financial asset or liability or a highly probable forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised immediately in the consolidated statement of income. The carrying amounts of hedged items are adjusted for fair value changes attributable to the risk being hedged and the difference is recognised in the consolidated statement of income.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and any ineffective portion is recognised in the consolidated statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income. Where the hedged transaction results in the recognition of an asset or liability, the associated gains or losses that had initially been recognised in equity are included in the initial measurement of the cost of the related asset or liability. For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the hedging instrument are taken directly to the consolidated statement of income.

Hedges of net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked by the Group. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction occurs. In the case of fair value hedges of interest bearing financial instruments, any adjustment relating to the hedge is amortised over the remaining term to maturity. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

Based on the Amendments to IFRS 7 and IFRS 9 "Interest Rate Benchmark reforms : "Phase 2" issued in August 2020, the Group has availed reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark rate with an RFR. The relief requires the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.22 Trade and settlement date accounting

All "regular way" purchase and sale of financial assets other than investments in equity instruments are recognised on the settlement date, i.e. the date the asset is delivered to the Group. Investments in equity instruments are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by the regulation or convention in the market place.

2.23 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of income. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of income. When the use of a property changes such that it is reclassified as Land, premises and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. The Group presents investment properties in other assets in the consolidated statement of financial position.

2.24 Land, premises and equipment

Land and premises comprise mainly branches and offices. All premises and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Projects and work in progress are stated at cost less impairment if any. Costs are those expenses incurred by the Group that are directly attributable to the creation of the asset. When the asset is ready for use, capital work in progress is transferred to the appropriate category and depreciated in accordance with the Group's policies.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the period in which they are incurred.

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and equipment on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of premises and equipment are as follows:

Building on leasehold land	term of lease (maximum 20 years)
Building on freehold land	50 years
IT systems and equipment	3-10 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of land, premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

2.25 Leases

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Notes to the Consolidated Financial Statements (continued)
31 December 2023

2 MATERIAL ACCOUNTING POLICIES (continued)
2.25 Leases (continued)

Right-of-use assets
The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The Group presents right-of-use assets in 'land, premises and equipment' in the consolidated statement of financial position.

Lease Liabilities
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments. The Group presents lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Based on the Amendments to IFRS 16 "Covid-19 Related Rent Concessions" issued in May 2020, the Group has elected not to follow lease modification accounting in respect of Covid-19 related rent concessions obtained from its lessors until 30 June 2023. Instead such rent concessions are accounted in the same way as if they were not a lease modification.

2.26 Business combinations
Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other acquisition related costs incurred are expensed and included in other administrative expenses.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included in cost of acquisition. Any resulting gain or loss is recognised in consolidated statement of income. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

2.27 Goodwill and intangible assets
a. Goodwill
Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is recorded in the functional currency of the foreign operation and is translated to the presentation currency at the rate of exchange prevailing at the reporting date. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

b. Intangible assets
Intangible assets comprise separately identifiable intangible items arising from business combinations. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefit will flow to the Group. Intangible assets are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over the useful economic life of 5 to 15 years and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. If the carrying value of the intangible asset is more than the recoverable amount, the intangible asset is considered impaired and is written

2 MATERIAL ACCOUNTING POLICIES (continued)
2.27 Goodwill and intangible assets (continued)
b. Intangible assets (continued)

down to its recoverable amount. The excess of carrying value over the recoverable amount is recognised in the consolidated statement of income. Impairment losses on intangible assets recognised in the consolidated statement of income in previous periods are reversed when there is an increase in the recoverable amount.

2.28 Property acquired on settlement of debt
Property acquired on settlement of debt is stated at the lower of the related loans and advances and the current fair value of such assets. Gains or losses on disposal and revaluation losses are recognised in the consolidated statement of income.

2.29 Due to Banks and Financial Institutions, Customer deposits & Certificates of deposit issued
Due to Banks, Deposits from other Financial Institutions, Customer Deposits & Certificates of deposit issued are stated at amortised cost using effective interest method. The carrying values of such liabilities which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

2.30 Islamic customer deposits
Islamic customer deposits comprise of Investment accounts and Non-investment accounts.

Investment accounts
Investment accounts may take the form of investment deposits, which are valid for specified periods of time, and are automatically renewable on maturity for the same period, unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of the profit, bear a share of loss and are carried at cost plus profit payable.

Non-investment accounts
Non-investment accounts represent, in accordance with Islamic Sharia'a, Qard Hasan from depositors to the Group. These accounts are neither entitled to profit nor do they bear any risk of loss, as the Group guarantees to pay the related balance. Investing Qard Hasan is made at the discretion of the Group and the results of such investments are attributable to the shareholders of the Group. Non-investment accounts are carried at cost.

2.31 Other borrowed funds
Other borrowed funds includes Tier 2 bonds, Global Medium Term Notes, Global Medium Term Sukuk, Medium and short term borrowings. These are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective interest rate method. The carrying values of such liabilities which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

2.32 Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the consolidated statement of income in 'net fees and commissions' on a straight line basis over the life of the guarantee. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee is likely to become payable, the present value of the expected net payments less the unamortised premium is charged to the consolidated statement of income.

2.33 Treasury shares
The Bank's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury share reserve amount. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

2 MATERIAL ACCOUNTING POLICIES (continued)

2.34 Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

2.35 Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in the consolidated statement of financial position.

2.36 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Accounting Judgements

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets with in that business model are realised differently than the original expectations. Refer Note 2.15 classification of financial assets for more information.

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Expected Credit Losses on financial assets

The Group estimates Expected Credit Loss (ECL) for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

Information about significant judgements and estimates made by the Group in the above areas is set out in Note 28.1.1.

Provision for credit losses as per CBK guidelines

The Group reviews its Loans, advances and Islamic financing to customers on a quarterly basis to assess whether a provision for credit losses should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of goodwill and intangible assets with indefinite useful life

The Group determines whether goodwill and intangible assets with indefinite useful life is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill or intangible assets is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.36 Significant accounting judgements and estimates (continued)

Fair values of assets and liabilities including intangibles

Considerable judgment by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

Share based payments

The Group measures the share based payments to employees by reference to the fair value of the relevant equity instruments. Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in Note 22.

Valuation of unquoted financial assets

Fair value of unquoted financial assets is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The determination of the cash flows and discount factors requires significant estimation.

2.37 Basis of translation

The United States dollar amounts in the Consolidated Statement of Income, Consolidated Statement of Comprehensive income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows represent supplementary information and have been translated at a rate of KD 0.30675 per USD which represents the mid-market rate at 31 December 2023.

3 SEGMENTAL ANALYSIS

The Group has six reportable segments as described below. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Consumer Banking

Consumer Banking provides a diversified range of products and services to individuals. The range includes consumer loans, credit cards, deposits, foreign exchange and other branch related services.

Corporate Banking

Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance, foreign exchange and advisory services.

NBK Wealth

NBK Wealth provides a full range of asset management, custody, brokerage, lending, deposits and other customized and innovative banking services to high net worth individuals and institutional clients across the Group.

Islamic Banking

Islamic banking represents the financial results of Boubyan Bank K.S.C.P., the Islamic banking subsidiary of the Group.

Group Centre

Group Centre includes treasury, investments, and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to its clients, and is also responsible for the Bank's liquidity and market risk management. Group Centre includes any residual in respect of transfer pricing and inter segment allocations.

International Banking

International Banking provides a broad range of products and services including lending, deposits, trade finance etc. to corporate and individual customers at Group's overseas locations.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

3 SEGMENTAL ANALYSIS (continued)

The following table shows net interest income and net income from Islamic financing, net operating income, profit for the year, total assets and total liabilities information in respect of the Group's business segments:

2023	Consumer Banking	Corporate Banking	NBK Wealth	Islamic Banking	Group Centre	International Banking	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Net interest income and net income from Islamic financing	182,745	123,688	45,919	180,543	136,760	235,482	905,137
Net operating income	237,974	162,894	112,192	224,424	152,182	277,101	1,166,767
Profit for the year	102,060	145,818	66,667	78,221	58,686	136,921	588,373
Total assets	5,084,225	5,105,296	981,443	8,404,989	1,971,188	16,117,850	37,664,991
Total liabilities	4,869,759	3,229,839	2,169,885	7,376,154	622,634	14,490,145	32,758,416

2022	Consumer Banking	Corporate Banking	NBK Wealth	Islamic Banking	Group Centre	International Banking	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Net interest income and net income from Islamic financing	188,558	105,182	32,866	172,071	47,757	209,405	755,839
Net operating income	241,910	145,443	93,800	207,528	72,688	248,372	1,009,741
Profit (loss) for the year	117,750	199,544	55,199	54,273	(28,465)	131,761	530,062
Total assets	5,036,519	4,933,723	997,905	7,880,757	1,971,281	15,518,178	36,338,363
Total liabilities	4,967,315	2,459,515	2,152,615	6,901,058	200,551	15,022,363	31,703,417

3 SEGMENTAL ANALYSIS (continued)

Geographic information:

The following table shows the geographic distribution of the Group's operating income based on the location of the operating entities.

Net operating income	**2023 KD 000's**	2022 KD 000's
Kuwait	**867,692**	743,128
Other Middle East and North Africa	**182,146**	173,027
Europe & UK	**69,840**	55,059
Others	**47,089**	38,527
	1,166,767	1,009,741

The following table shows the geographic distribution of the Group's non-current assets based on the location of the operating entities.

Non-current assets	**2023 KD 000's**	2022 KD 000's
Kuwait	**1,032,503**	997,294
Other Middle East and North Africa	**46,010**	40,102
Europe & UK	**14,822**	9,881
Others	**2,993**	3,646
	1,096,328	1,050,923

Non-current assets consist of land, premises and equipment, goodwill and other intangible assets, investment properties and property acquired on settlement of debts.

4 INTEREST INCOME

	2023 KD 000's	2022 KD 000's
Deposits with banks	**233,519**	90,873
Loans and advances to customers	**979,350**	629,180
Debt investment securities	**370,889**	202,916
Kuwait Government treasury bonds and CBK bonds	**48,990**	24,620
	1,632,748	947,589

Notes to the Consolidated Financial Statements (continued)

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5 INTEREST EXPENSE

	2023 KD 000's	2022 KD 000's
Due to banks	**202,697**	64,625
Deposits from other financial institutions	**106,991**	58,846
Customer deposits	**493,049**	199,930
Certificates of deposit issued	**82,229**	22,712
Other borrowed funds	**23,188**	17,708
	908,154	363,821

6 NET FEES AND COMMISSIONS

	2023 KD 000's	2022 KD 000's
Fees and commissions income	**300,354**	259,080
Fees and commissions related expenses	**(103,748)**	(77,302)
Net fees and commissions	**196,606**	181,778

Fees and commissions income includes asset management fees of KD 57,732 thousand (2022: KD 52,270 thousand) earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

7 NET INVESTMENT INCOME

	2023 KD 000's	2022 KD 000's
Net realised loss on sale of investments	**(239)**	(238)
Net gains from investments carried at fair value through statement of income	**19,130**	2,993
Realised gain from disposal of a foreign branch	**-**	1,283
Dividend income	**2,570**	2,272
Share of results of associates	**765**	786
Other investment income	**5,240**	8,640
	27,466	15,736

8 PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2023 KD 000's	2022 KD 000's
Provision charge for credit losses (Note 13)	**81,765**	5,350
ECL charge for investment in debt securities (Note 14)	**2,501**	2,991
ECL (release) charge for other financial assets	**(2,512)**	3,493
Impairment loss on goodwill (Note 15)	**20,174**	20,199
Other impairment losses	**1,140**	13,330
	103,068	45,363

9 TAXATION

	2023 KD 000's	2022 KD 000's
National Labour Support Tax	**14,088**	13,116
Zakat	**6,267**	5,693
Contribution to Kuwait Foundation for the Advancement of Sciences	**5,911**	5,557
Overseas tax	**21,831**	23,056
	48,097	47,422

Pillar 2 Income Taxes

In 2021, OECD's Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) had agreed to a two-pillar solution in order to address tax challenges arising from digitalization of the economy. Under Pillar 2, multinational entities whose revenue exceeds EUR 750 million are liable to pay corporate income tax at a minimum effective tax rate of 15%.

The jurisdictions in which the Group operates including the State of Kuwait have joined the IF. The Group expects to be liable for the Global Minimum Tax under Pillar 2 of the BEPS regulations starting from the year 2025.

The Group is currently assessing its exposure to the additional income taxes under Pillar 2 regulations. The assessment indicates that a substantial portion of Group's earnings, primarily from Kuwait and Bahrain, will be subject to additional income taxes under Pillar 2 regulations. A reasonable estimate of the additional tax cannot be provided at this stage, as the relevant tax legislation is yet to be introduced in Kuwait and some other jurisdictions.

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10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier 1 Capital Securities and Sukuk) by the weighted average number of shares outstanding during the year net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	2023 KD 000's	2022 KD 000's
Profit for the year attributable to shareholders of the Bank	560,620	509,085
Less: Interest paid on Perpetual Tier 1 Capital Securities	(18,224)	(18,119)
Less: Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary attributable to shareholders of the Bank	(3,664)	(3,642)
	538,732	487,324
Weighted average number of shares outstanding during the year net of treasury shares (thousand)	7,929,946	7,929,946
Basic earnings per share	68 Fils	61 fils

Earnings per share calculations for 2022 have been adjusted to take account of the bonus shares issued in 2023.

11 CASH AND SHORT TERM FUNDS

	2023 KD 000's	2022 KD 000's
Cash on hand	165,937	213,598
Current account with other banks	1,525,474	2,925,399
Money at call	635,106	487,281
Balances and deposits with the Central Bank of Kuwait	1,526,210	1,124,507
Deposits and Murabaha with banks maturing within seven days	560,352	601,823
	4,413,079	5,352,608
Expected credit losses	(28,379)	(29,156)
	4,384,700	5,323,452

12 DEPOSITS WITH BANKS

	2023 KD 000's	2022 KD 000's
Deposits with the Central Bank of Kuwait	115,969	97,627
Deposits with other banks	1,203,256	1,395,489
	1,319,225	1,493,116
Expected credit losses	(1,104)	(2,830)
	1,318,121	1,490,286

13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2023	Middle East and North Africa KD 000's	North America KD 000's	Europe & UK KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Corporate	11,807,679	606,107	1,912,542	658,681	436,341	15,421,350
Retail	7,718,323	-	4,181	-	-	7,722,504
Loans, advances and Islamic financing to customers	19,526,002	606,107	1,916,723	658,681	436,341	23,143,854
Provision for credit losses						(862,850)
						22,281,004

2022	Middle East and North Africa KD 000's	North America KD 000's	Europe & UK KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Corporate	11,145,896	599,238	1,638,332	455,489	378,088	14,217,043
Retail	7,604,694	-	4,620	-	-	7,609,314
Loans, advances and Islamic financing to customers	18,750,590	599,238	1,642,952	455,489	378,088	21,826,357
Provision for credit losses						(827,941)
						20,998,416

In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the minimum rate from 2% to 1% for cash facilities and 0.5% for non-cash facilities. The required rates were effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. Pending further directive from the Central Bank of Kuwait, the general provision in excess of 1% for cash facilities and 0.5% for non-cash facilities was retained as general provision.

Notes to the Consolidated Financial Statements (continued)

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13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

Provisions for credit losses on cash facilities are as follows:

	Specific		General		Total	
	2023 KD 000's	2022 KD 000's	**2023 KD 000's**	2022 KD 000's	**2023 KD 000's**	2022 KD 000's
Balance at beginning of the year	**167,921**	123,857	**660,020**	509,667	**827,941**	633,524
Provided (release) during the year	**45,052**	(157,433)	**36,519**	151,684	**81,571**	(5,749)
Amounts (written off) recovered net of exchange movements	**(47,700)**	201,497	**1,038**	(1,331)	**(46,662)**	200,166
Balance at end of the year	**165,273**	167,921	**697,577**	660,020	**862,850**	827,941

Further analysis of specific provision based on class of financial asset is given below:

	Corporate		Retail		Total	
	2023 KD 000's	2022 KD 000's	**2023 KD 000's**	2022 KD 000's	**2023 KD 000's**	2022 KD 000's
Balance at beginning of the year	**72,002**	42,469	**95,919**	81,388	**167,921**	123,857
Provided (release) during the year	**12,955**	(184,247)	**32,097**	26,814	**45,052**	(157,433)
Amounts (written off) recovered net of exchange movements	**(21,892)**	213,780	**(25,808)**	(12,283)	**(47,700)**	201,497
Balance at end of the year	**63,065**	72,002	**102,208**	95,919	**165,273**	167,921

13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

Analysis of total provision charge (release) for credit losses is given below:

	Specific		General		Total	
	2023 KD 000's	2022 KD 000's	**2023 KD 000's**	2022 KD 000's	**2023 KD 000's**	2022 KD 000's
Cash facilities	**45,052**	(157,433)	**36,519**	151,684	**81,571**	(5,749)
Non cash facilities	**(507)**	10,637	**701**	462	**194**	11,099
Provision charge (release) for credit losses	**44,545**	(146,796)	**37,220**	152,146	**81,765**	5,350

Non-performing loans, advances and Islamic financing to customers and related provisions are as follows:

	2023 KD 000's	2022 KD 000's
Loans, advances and Islamic financing to customers	**318,386**	310,046
Provisions	**159,150**	159,870

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2023 amounts to KD 172,260 thousand (2022: KD 197,822 thousand). The collateral consists of cash, securities, bank guarantees and properties.

The available provision on non-cash facilities of KD 40,540 thousand (2022: KD 40,344 thousand) is included under other liabilities (Note 18). The total provision for cash and non cash credit facilities in accordance with CBK guidelines amounted to KD 903,390 thousand as at 31 December 2023 (31 December 2022: KD 868,285 thousand).

The Expected Credit Losses ("ECL") on credit facilities determined under IFRS 9 in accordance to the CBK guidelines amounted to KD 615,659 thousand as at 31 December 2023 (2022: KD 577,435 thousand). CBK guidelines prescribe certain parameters to determine the ECL on credit facilities such as floors for estimating Probability of Default (PD), eligible collateral with haircuts for determining Loss Given Default (LGD), deemed minimum maturity for Stage 2 exposures, 100% credit conversion factors for utilised cash and non-cash facilities, Stage 3 ECLs at 100% of the defaulted exposure net of eligible collateral after applying applicable haircuts etc.

Notes to the Consolidated Financial Statements (continued)

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13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

An analysis of the carrying amounts of credit facilities by credit quality, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

2023	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
High	19,239,616	780,821	-	20,020,437
Standard	2,099,895	705,136	-	2,805,031
Impaired	-	-	318,386	318,386
Loans, advances and Islamic financing to customers	21,339,511	1,485,957	318,386	23,143,854
Contingent liabilities (Note 25)	3,895,079	708,129	12,703	4,615,911
Commitments (revocable and irrevocable) to extend credit	8,046,514	1,010,524	1,175	9,058,213
ECL allowance for credit facilities	195,114	174,258	246,287	615,659

2022	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
High	18,187,036	862,868	-	19,049,904
Standard	1,509,061	957,346	-	2,466,407
Impaired	-	-	310,046	310,046
Loans, advances and Islamic financing to customers	19,696,097	1,820,214	310,046	21,826,357
Contingent liabilities (Note 25)	3,799,942	655,399	12,045	4,467,386
Commitments (revocable and irrevocable) to extend credit	7,505,629	1,165,237	6	8,670,872
ECL allowance for credit facilities	169,351	169,228	238,856	577,435

13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

Ageing analysis of past due or impaired Loans, advances and Islamic financing to customers:

	Corporate		Retail		Total	
	Past due and not impaired KD 000's	Impaired KD 000's	Past due and not impaired KD 000's	Impaired KD 000's	Past due and not impaired KD 000's	Impaired KD 000's
2023						
Up to 30 days	13,145	7,773	39,738	746	52,883	8,519
31 - 60 days	8,477	-	22,172	120	30,649	120
61 - 90 days	3,112	-	6,148	89	9,260	89
91-180 days	-	26,525	-	27,681	-	54,206
More than 180 days	-	147,442	-	108,010	-	255,452
	24,734	181,740	68,058	136,646	92,792	318,386

	Corporate		Retail		Total	
	Past due and not impaired KD 000's	Impaired KD 000's	Past due and not impaired KD 000's	Impaired KD 000's	Past due and not impaired KD 000's	Impaired KD 000's
2022						
Up to 30 days	96,722	12,422	31,769	23	128,491	12,445
31 - 60 days	2,735	-	20,251	4	22,986	4
61 - 90 days	4,652	-	7,079	3	11,731	3
91-180 days	-	47,028	-	22,439	-	69,467
More than 180 days	-	124,931	-	103,196	-	228,127
	104,109	184,381	59,099	125,665	163,208	310,046

Of the aggregate amount of gross past due or impaired loans, advances and Islamic financing to customers, the fair value of collateral that the Group held as at 31 December 2023 was KD 227,510 thousand (2022: KD 211,212 thousand).

Notes to the Consolidated Financial Statements (continued)

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13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

An analysis of the changes in the ECL in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance to the CBK guidelines is as follows:

	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2023	**169,351**	**169,228**	**238,856**	**577,435**
Transfer between stages				
Transfer from Stage 1	**(5,100)**	**3,435**	**1,665**	**-**
Transfer from Stage 2	**34,837**	**(50,082)**	**15,245**	**-**
Transfer from Stage 3	**12,503**	**1,858**	**(14,361)**	**-**
Amounts recovered (written off) net of exchange movements	**143**	**232**	**(46,958)**	**(46,583)**
Net (decrease) increase in ECL for the year	**(16,620)**	**49,587**	**51,840**	**84,807**
At 31 December 2023	**195,114**	**174,258**	**246,287**	**615,659**

	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2022	134,762	163,737	163,296	461,795
Transfer between stages				
Transfer from Stage 1	(5,870)	2,590	3,280	-
Transfer from Stage 2	24,258	(39,667)	15,409	-
Transfer from Stage 3	4,132	877	(5,009)	-
Amounts (written off) recovered net of exchange movements	(177)	-	200,878	200,701
Net increase(decrease) in ECL for the year	12,246	41,691	(138,998)	(85,061)
At 31 December 2022	169,351	169,228	238,856	577,435

14 FINANCIAL INVESTMENTS

The table below provides the details of the categorisation of financial investments:

2023	Amortised cost KD 000's	Fair value through other comprehensive income KD 000's	Fair value through statement of income KD 000's	Total KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	**1,073,186**	**2,959,018**	**-**	**4,032,204**
Debt securities - Non Government	**-**	**2,560,626**	**17,979**	**2,578,605**
Equities	**-**	**40,987**	**34,767**	**75,754**
Other investments	**-**	**-**	**217,184**	**217,184**
	1,073,186	**5,560,631**	**269,930**	**6,903,747**
Expected credit losses	**(18,926)**	**-**	**-**	**(18,926)**
	1,054,260	**5,560,631**	**269,930**	**6,884,821**
Central Bank of Kuwait bonds	**856,815**	**-**	**-**	**856,815**
Kuwait Government treasury bonds	**194,111**	**-**	**-**	**194,111**
	2,105,186	**5,560,631**	**269,930**	**7,935,747**

2022	Amortised cost KD 000's	Fair value through other comprehensive income KD 000's	Fair value through statement of income KD 000's	Total KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	929,170	2,320,660	-	3,249,830
Debt securities - Non Government	-	2,065,075	17,671	2,082,746
Equities	-	37,168	31,552	68,720
Other investments	-	-	249,938	249,938
	929,170	4,422,903	299,161	5,651,234
Expected credit losses	(16,562)	-	-	(16,562)
	912,608	4,422,903	299,161	5,634,672
Central Bank of Kuwait bonds	881,241	-	-	881,241
Kuwait Government treasury bonds	211,629	-	-	211,629
	2,005,478	4,422,903	299,161	6,727,542

Notes to the Consolidated Financial Statements (continued)

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14 FINANCIAL INVESTMENTS (continued)

The Group has classified certain unquoted equity investments at fair value through other comprehensive income on the basis that these are not held for trading. The dividend received on such investments during 2023 was KD 1,520 thousand (2022: KD 1,426 thousand).

An analysis of the carrying amounts of investments in debt securities, by credit quality, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

2023	**Stage 1 KD 000's**	**Stage 2 KD 000's**	**Stage 3 KD 000's**	**Total KD 000's**
High	**5,167,946**	**-**	**-**	**5,167,946**
Standard	**1,237,493**	**186,920**	**-**	**1,424,413**
Impaired	**-**	**-**	**471**	**471**
Investments in debt securities	**6,405,439**	**186,920**	**471**	**6,592,830**
ECL allowance for debt securities	**16,691**	**18,228**	**8,305**	**43,224**

2022	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
High	3,770,532	-	-	3,770,532
Standard	1,355,818	188,078	-	1,543,896
Impaired	-	-	477	477
Investments in debt securities	5,126,350	188,078	477	5,314,905
ECL allowance for debt securities	16,676	15,778	8,269	40,723

ECL allowance for investments in debt securities as at 31 December 2023 consists of KD 18,926 thousand (2022: KD 16,562 thousand) in respect of debt securities carried at amortised cost and KD 24,298 thousand (2022: KD 24,161 thousand) in respect of debt securities carried at fair value through other comprehensive income.

Investments in debt securities carried at fair value through statement of income are not subject to Expected Credit Losses. Central Bank of Kuwait bonds and Kuwait Government treasury bonds are also not subject to Expected Credit Losses.

14 FINANCIAL INVESTMENTS (continued)

An analysis of changes in the gross carrying amount and the corresponding Expected Credit Losses in relation to Investment in debt securities are as follows:

2023	**Stage 1 KD 000's**	**Stage 2 KD 000's**	**Stage 3 KD 000's**	**Total KD 000's**
Gross carrying amount as at 1 January 2023	**5,126,350**	**188,078**	**477**	**5,314,905**
Assets purchased/(de-recognised) during the year -Net	**1,198,327**	**(1,436)**	**-**	**1,196,891**
Fair value and exchange movements	**80,762**	**278**	**(6)**	**81,034**
At 31 December 2023	**6,405,439**	**186,920**	**471**	**6,592,830**

2022	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Gross carrying amount as at 1 January 2022	4,383,442	242,127	897	4,626,466
Assets purchased/(de-recognised) during the year -Net	1,103,411	(55,639)	-	1,047,772
Fair value and exchange movements	(360,503)	1,590	(420)	(359,333)
At 31 December 2022	5,126,350	188,078	477	5,314,905

There were no transfers between stage 1, stage 2 and stage 3.

Notes to the Consolidated Financial Statements (continued)

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14 FINANCIAL INVESTMENTS (continued)

2023	**Stage 1 KD 000's**	**Stage 2 KD 000's**	**Stage 3 KD 000's**	**Total KD 000's**
ECL allowance as at 1 January 2023	**16,676**	**15,778**	**8,269**	**40,723**
Impact due to purchase/(de-recognition)	**2,939**	**(7)**	**-**	**2,932**
Re-measurement of ECL	**(2,924)**	**2,457**	**36**	**(431)**
Net charge to consolidated statement of income	**15**	**2,450**	**36**	**2,501**
At 31 December 2023	**16,691**	**18,228**	**8,305**	**43,224**

2022	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2022	14,433	15,126	8,173	37,732
Impact due to purchase/(de-recognition)	4,943	(195)	-	4,748
Re-measurement of ECL	(2,700)	847	96	(1,757)
Net charge to consolidated statement of income	2,243	652	96	2,991
At 31 December 2022	16,676	15,778	8,269	40,723

15 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill KD 000's	**Intangible Assets KD 000's**	**Total KD 000's**
Cost			
At 1 January 2023	**382,252**	**213,955**	**596,207**
Exchange rate adjustments	**(8,480)**	**(2,586)**	**(11,066)**
At 31 December 2023	**373,772**	**211,369**	**585,141**
Accumulated amortisation & impairment			
At 1 January 2023	**20,199**	**41,072**	**61,271**
Amortisation charge for the year	**-**	**1,647**	**1,647**
Impairment charge for the year	**20,174**	**-**	**20,174**
Exchange rate adjustments	**(3,781)**	**(2,586)**	**(6,367)**
At 31 December 2023	**36,592**	**40,133**	**76,725**
Net book value			
At 31 December 2023	**337,180**	**171,236**	**508,416**

	Goodwill KD 000's	Intangible Assets KD 000's	Total KD 000's
Cost			
At 1 January 2022	406,734	221,194	627,928
Exchange rate adjustments	(24,482)	(7,239)	(31,721)
At 31 December 2022	382,252	213,955	596,207
Accumulated amortisation & impairment			
At 1 January 2022	-	46,664	46,664
Amortisation charge for the year	-	1,647	1,647
Impairment charge for the year	20,199	-	20,199
Exchange rate adjustments	-	(7,239)	(7,239)
At 31 December 2022	20,199	41,072	61,271
Net book value			
At 31 December 2022	362,053	172,883	534,936

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15 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Net book value of goodwill as at 31 December 2023 includes KD 334,531 thousand (2022: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD Nil (2022: KD 25,149 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,649 thousand (2022: KD 2,373 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2023 includes banking licences and brand amounting to KD 158,623 thousand (2022: KD 158,623 thousand), customer relationships and core deposits amounting to KD 5,903 thousand (2022: KD 7,550 thousand) and brokerage licences amounting to KD 6,710 thousand (2022: KD 6,710 thousand). Intangible assets with indefinite useful life amounts to KD 165,333 thousand (2022: KD 165,333 thousand). Intangible assets with definite useful life amounting to KD 5,903 thousand (2022: KD 7,550 thousand) are amortised over a period of 15 years.

Impairment testing for goodwill and intangible assets with indefinite useful life

The carrying value of goodwill and intangible assets with indefinite useful life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill or intangible assets might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations unless fair value based on an active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows are then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

Since the fair value less cost of disposal of the Group's holding in Boubyan Bank K.S.C.P. is higher than its carrying value, there is no indication that the associated goodwill or intangible assets with indefinite useful life is impaired. Recoverable amount of other goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 28.6% (2022: 21.5%) and a terminal growth rate of 7% (2022: 7%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 13% (2022: 13%) and terminal growth rate of 2.4% (2022: 2.6%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin.

Based on such analysis, the Group has recorded an impairment loss of KD 20,174 thousand (2022: KD 20,199 thousand) relating to the goodwill in respect of National Bank of Kuwait – Egypt S.A.E.

There are no indications that the remaining goodwill or intangible assets with indefinite useful life are impaired.

16 OTHER ASSETS

	2023 KD 000's	2022 KD 000's
Interest receivable	**203,757**	147,900
Positive fair value of derivatives (Note 26)	**310,446**	355,308
Sundry debtors and other receivables	**51,084**	58,039
Investment in associates	**2,809**	3,119
Investment properties	**73,521**	33,618
Properties acquired on settlement of debts	**7,579**	7,645
Government grant receivable	**-**	139,582
Others	**80,995**	43,796
	730,191	789,007

17 OTHER BORROWED FUNDS

	2023 KD 000's	2022 KD 000's
Global Medium Term Notes - USD 1,000,000 thousand	**305,338**	304,459
Global Medium Term Sukuk - USD 750,000 thousand	**230,063**	231,947
Global Medium Term Sukuk - USD 500,000 thousand	**146,451**	144,896
Subordinated Tier 2 bonds - KD 150,000 thousand	**149,800**	149,638
Subordinated Tier 2 bonds - USD 300,000 thousand	**91,902**	91,757
Medium and short term borrowing from banks and financial institutions	**407,452**	320,866
	1,331,006	1,243,563

Notes to the Consolidated Financial Statements (continued)

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17 OTHER BORROWED FUNDS (continued)

Global Medium-Term senior unsecured notes of USD 1,000,000 thousand were issued on 15 September 2021, under the Bank's USD 5 billion Global Medium Term Note programme, maturing on 15 September 2027 with first optional redemption date on 15 September 2026. These notes were issued at 99.518 per cent of nominal value and carry a fixed interest rate of 1.625% per annum payable semi-annually in arrears until the first optional redemption date, followed by a floating rate of SOFR + 105 basis points paid quarterly thereafter.

Global Medium-Term senior unsecured Sukuk of USD 750,000 thousand were issued by Boubyan Bank K.S.C.P, a subsidiary of the Group in February 2020, with a tenor of 5 years, issued at par and carry at a fixed profit rate of 2.593% per annum, payable semi-annually in arrears.

Global Medium-Term senior unsecured Sukuk of USD 500,000 thousand were issued by Boubyan Bank K.S.C.P, a subsidiary of the Group in March 2022, with a tenor of 5 years, issued at par and carry at a fixed profit rate of 3.389% per annum, payable semi-annually in arrears.

Subordinated Tier 2 bonds of KD 150,000 thousand were issued in November 2020 with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 4.75% per annum for the first five years and will be reset on the fifth year anniversary of date of issuance. Floating-rate bonds carry an interest rate of 3% per annum over the CBK discount rate, reset semi-annually, subject to a maximum of 1% over the prevailing rate for the fixed-rate bonds. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions and regulatory approvals.

Subordinated Tier 2 bonds of USD 300,000 thousand were issued in November 2020 with a tenor of up to 10 years, carry a fixed rate of 2.5% per annum for the first five years and will be reset on the fifth year anniversary of date of issuance. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions and regulatory approvals.

18 OTHER LIABILITIES

	2023 KD 000's	2022 KD 000's
Interest payable	**317,428**	150,414
Income received in advance	**56,362**	48,740
Taxation	**56,436**	41,442
Provision on non-cash facilities (Note 13)	**40,540**	40,344
Accrued expenses	**82,221**	67,313
Negative fair value of derivatives (Note 26)	**62,752**	40,761
Post-employment benefit	**53,257**	54,208
Lease liabilities	**32,972**	25,728
Others	**264,155**	252,363
	966,123	721,313

Post-Employment Benefit

The present value of defined benefit obligations and the related current and past service cost was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation are a discount rate of 5.94% (2022: 5.25%), future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

The movement in the post-employment benefit was as follows:

	2023 KD 000's	2022 KD 000's
Balance at 1 January	**54,208**	56,822
Net charge during the year	**9,981**	11,106
Paid during the year	**(6,963)**	(5,468)
Actuarial gain in respect of defined benefit plans	**(3,969)**	(8,252)
Balance at 31 December	**53,257**	54,208

Notes to the Consolidated Financial Statements (continued)

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19 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 10,000,000,000 (2022: 10,000,000,000) shares of 100 fils each.

	2023 KD 000's	2022 KD 000's
Issued and fully paid in cash:		
7,929,945,620 (2022: 7,552,329,162) shares of 100 fils each	**792,995**	755,233

Annual General Meeting of the shareholders held on 18 March 2023 approved an increase of KD 37,762 thousand (2022: KD 35,964 thousand) in the issued and fully paid share capital of the Bank by issuing 377,616,458 (2022: 359,634,722) bonus shares representing 5% of the share capital. The issued and fully paid-up share capital increased from KD 7,552,329,162 to KD 7,929,945,620 and the change in share capital was recorded in the commercial register on 20 March 2023.

The movement in ordinary shares in issue during the year was as follows:

	2023	2022
Number of shares in issue as at 1 January	**7,552,329,162**	7,192,694,440
Bonus issue	**377,616,458**	359,634,722
Number of shares in issue as at 31 December	**7,929,945,620**	7,552,329,162

b) Statutory reserve

The Board of Directors recommended a transfer of KD 18,881 thousand (2022: KD 17,981 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non-distributable statutory reserve until such time as this reserve exceeds 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve in excess of 50% of the Bank's issued capital.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

c) Share premium account

The balance in the share premium account is not available for distribution.

19 SHARE CAPITAL AND RESERVES (continued)

d) Treasury shares and Treasury share reserve

The balance in the treasury share reserve account is not available for distribution. Further, an amount equal to the cost of treasury shares is not available for distribution from general reserve throughout the holding period of these treasury shares.

e) Other reserves

								KD 000's
	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Actuarial valuation reserve	Proposed cash dividend	Total other reserves
Balance as at 1 January 2023	**117,058**	**1,550,747**	**(336,789)**	**79,139**	**14,409**	**1,014**	**188,808**	**1,614,386**
Profit for the year	-	**560,620**	-	-	-	-	-	**560,620**
Other comprehensive (loss) income	-	-	**(15,049)**	**4,414**	-	**3,500**	-	**(7,135)**
Total comprehensive income (loss)	-	**560,620**	**(15,049)**	**4,414**	-	**3,500**	-	**553,485**
Transfer to statutory reserve (Note 19b)	-	**(18,881)**	-	-	-	-	-	**(18,881)**
Final cash dividend paid (2022)	-	-	-	-	-	-	**(188,808)**	**(188,808)**
Interim cash dividend paid - 10 fils per share (Note 20)	-	**(79,299)**	-	-	-	-	-	**(79,299)**
Proposed final cash dividend - 25 fils per share (Note 20)	-	**(198,249)**	-	-	-	-	**198,249**	-
Proposed bonus shares (Note 20)	-	**(39,649)**	-	-	-	-	-	**(39,649)**
Interest paid on perpetual Tier 1 Capital Securities	-	**(18,224)**	-	-	-	-	-	**(18,224)**
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	**(3,664)**	-	-	-	-	-	**(3,664)**
Change in holding in subsidiaries	-	**(3,906)**	-	-	-	-	-	**(3,906)**
Other movements	-	**1,200**	-	-	-	-	-	**1,200**
At 31 December 2023	**117,058**	**1,750,695**	**(351,838)**	**83,553**	**14,409**	**4,514**	**198,249**	**1,816,640**

Notes to the Consolidated Financial Statements (continued)

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19 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

KD 000's

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Actuarial valuation reserve	Proposed cash dividend	Total other reserves
Balance as at 1 January 2022	117,058	1,385,277	(214,176)	74,648	14,409	(6,289)	215,781	1,586,708
Profit for the year	-	509,085	-	-	-	-	-	509,085
Other comprehensive (loss) income	-	-	(122,613)	4,491	-	7,303	-	(110,819)
Total comprehensive income (loss)	-	509,085	(122,613)	4,491	-	7,303	-	398,266
Transfer to statutory reserve (Note 19b)	-	(17,981)	-	-	-	-	-	(17,981)
Cash dividend paid (2021)	-	-	-	-	-	-	(215,781)	(215,781)
Interim cash dividend paid - 10 fils per share (Note 20)	-	(75,523)	-	-	-	-	-	(75,523)
Proposed final cash dividend - 25 fils per share (Note 20)	-	(188,808)	-	-	-	-	188,808	-
Proposed bonus shares (Note 20)	-	(37,762)	-	-	-	-	-	(37,762)
Interest paid on perpetual Tier 1 Capital Securities	-	(18,119)	-	-	-	-	-	(18,119)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	(3,642)	-	-	-	-	-	(3,642)
Change in holding in subsidiaries	-	(2,557)	-	-	-	-	-	(2,557)
Other movements	-	777	-	-	-	-	-	777
At 31 December 2022	117,058	1,550,747	(336,789)	79,139	14,409	1,014	188,808	1,614,386

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable, except for the amount equivalent to the cost of treasury shares.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

Actuarial valuation reserve represents the gain (loss) resulting from increase in the present value of defined benefit plans due to changes in actuarial assumptions.

20 DIVIDEND

The Board of Directors approved distribution of an interim cash dividend 10 fils per share amounting to KD 79,299 thousand on the outstanding shares as at 30 June 2023 (30 June 2022: KD 75,523 thousand for 10 fils per share), which was paid subsequently.

The Board of Directors recommended distribution of final cash dividend of 25 fils per share (2022: 25 fils per share) and bonus shares of 5% (2022: 5%) on outstanding shares as at 31 December 2023. The final cash dividend and bonus shares, if approved by the Shareholders' Annual General Meeting, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

21 PERPETUAL TIER 1 CAPITAL SECURITIES

The Bank issued the following Perpetual Tier 1 Capital Securities (the "Capital Securities"), through wholly owned special-purpose vehicles:

	2023 KD 000's	2022 KD 000's
USD 700,000 thousand (issued in February 2021 at an interest rate of 3.625% per annum, semi-annually in arrears, until the first reset date in February 2027, redeemable at the option of the Bank in August 2026)	**211,294**	211,294
USD 750,000 thousand (issued in November 2019 at an interest rate of 4.5% per annum, semi-annually in arrears, until the first reset date in November 2025, redeemable at the option of the Bank in August 2025)	**227,738**	227,738
Balance at 31 December	**439,032**	439,032

The above mentioned Capital securities are subordinated, unsecured and are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date and on every interest payment date thereafter, subject to certain conditions.

During 2021, Boubyan Bank K.S.C.P issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 500,000 thousand, callable in October 2026 and bears an expected profit rate of 3.95% per annum until the first reset date in April 2027, payable semi-annually in arrears.

Tier 1 Sukuk is a perpetual security with no fixed redemption date and constitutes direct, unsecured, subordinated obligations subject to the terms and conditions of the Mudaraba Agreement .Tier 1 Sukuk is eligible to be classified under equity in accordance with IAS 32 : Financial Instruments – Presentation. The Parent Bank did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non-controlling interest in the consolidated statement of financial position.

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22 SHARE BASED PAYMENT

The Bank operates a cash-settled share-based compensation plan and granted options to its senior executives. These options vest if the employees remain in service for a period of three years and will be settled by cash payment determined based on the market value of the Bank's equity shares on vesting date.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.837 (2022: KD 1.020) as at the end of the year. The significant inputs into the model were a share price of KD 0.894 (2022: KD 1.078) at the measurement date, a standard deviation of expected share price returns of 26.06% (2022: 26.3%), option life disclosed above and annual risk free interest rate of 4.25% (2022: 3.5%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The following table shows the movement in number of share options during the year:

	2023 No. of share options	2022 No. of share options
Outstanding at 1 January	**7,575,281**	7,187,358
Granted during the year	**2,875,178**	2,835,231
Exercised during the year	**(1,974,760)**	(2,237,096)
Lapsed during the year	**(272,837)**	(210,212)
Outstanding at 31 December	**8,202,862**	7,575,281

The expense accrued on account of share-based compensation plans for the year amounts to KD 1,759 thousand (2022: KD 2,720 thousand) and is included under staff expenses.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuation techniques include discounted cash flow models, comparison with similar instruments for which market observable prices exist, recent transaction information and net asset values. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. During the year ended 31 December 2023, there were no transfers between level 1, level 2 and level 3.

The following table provides the fair value measurement hierarchy of the Group's financial instruments recorded at fair value:

2023	**Level 1 KD 000's**	**Level 2 KD 000's**	**Level 3 KD 000's**	**Total KD 000's**
Debt securities	**5,192,114**	**345,509**	**-**	**5,537,623**
Equities and other investments	**61,356**	**188,570**	**43,012**	**292,938**
	5,253,470	**534,079**	**43,012**	**5,830,561**
Derivative financial instruments (Note 26)	**-**	**247,694**	**-**	**247,694**

2022	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	4,076,198	327,208	-	4,403,406
Equities and other investments	53,251	217,361	48,046	318,658
	4,129,449	544,569	48,046	4,722,064
Derivative financial instruments (Note 26)	-	314,547	-	314,547

Notes to the Consolidated Financial Statements (continued)

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23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The table below analyses the movement in level 3 and the income (dividend and realised gain) generated during the year.

	At 1 January 2023	Change in fair value	Additions	Sale/ redemption	Exchange rate movements	At 31 December 2023	Net gains in the consolidated statement of income
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Equities and other investments	48,046	(266)	849	(5,705)	88	43,012	2,244
	48,046	(266)	849	(5,705)	88	43,012	2,244

	At 1 January 2022	Change in fair value	Additions	Sale/ redemption	Exchange rate movements	At 31 December 2022	Net gains in the consolidated statement of income
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Equities and other investments	51,464	(4,410)	5,278	(4,364)	78	48,046	905
	51,464	(4,410)	5,278	(4,364)	78	48,046	905

Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

24 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	Country of incorporation	Principal business	Percentage ownership	
			2023	2022
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	60.4	60.1
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	99.1	99.1
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	100.0	99.9
National Bank of Kuwait (International) PLC	United Kingdom	Banking	100.0	100.0
National Bank of Kuwait France SA	France	Banking	100.0	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	100.0	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	85.5	85.5
Credit Bank of Iraq S.A.	Iraq	Banking	91.0	91.0
National Investors Group Holdings Limited	Cayman Islands	Investment Company	100.0	100.0
Watani Wealth Management Company	Saudi Arabia	Investment Management	100.0	100.0
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	100.0	98.3
NBK GDM (Caymans) Limited	Cayman Islands	Treasury activities	100.0	100.0
Bank of London and the Middle East (held through Boubyan Bank K.S.C.P.)	United Kingdom	Islamic Banking	72.1	71.5

At 31 December 2023, 38.1% (2022: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

The Bank also holds voting capital in certain special-purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in Note 30.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

24 SUBSIDIARIES (continued)

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2023 KD 000's	2022 KD 000's
Accumulated balances of non-controlling interest	575,626	565,000
Profit attributable to non-controlling interest	27,179	20,785

Summarized financial information of Boubyan Bank K.S.C.P. is as follows:

	2023 KD 000's	2022 KD 000's
Summarized financial information		
Assets	8,404,989	7,880,757
Liabilities	7,376,154	6,901,058
Net operating income	218,030	201,363
Results for the year	78,221	54,273
Other comprehensive income (loss) for the year	4,819	(1,619)

	2023 KD 000's	2022 KD 000's
Summarized cash flow information		
Operating cash flow	273,595	(166,793)
Investing cash flow	(336,084)	(180,388)
Financing cash flow	(104,200)	312,313

25 COMMITMENTS AND CONTINGENT LIABILITIES

	2023 KD 000's	2022 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	189,080	281,958
Letters of credit	391,486	410,321
Guarantees	4,035,345	3,775,107
	4,615,911	4,467,386

Irrevocable commitments to extend credit amount to KD 1,327,508 thousand (2022: KD 1,024,290 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 85,980 thousand (2022: KD 82,124 thousand).

26 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are financial instruments that derive their value by referring to interest rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter-parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest-bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counterparties or by other risk mitigating transactions.

Notes to the Consolidated Financial Statements (continued)

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26 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (continued)

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Group exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity. Profit rate swaps are also included in this category.

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2023			2022		
	Positive fair value KD 000's	**Negative fair value KD 000's**	**Notional KD 000's**	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	**282,008**	**43,973**	**5,826,052**	330,703	12,922	4,559,283
Interest rate swaps (others)	**891**	**1,753**	**86,318**	1,259	1,270	21,441
Forward foreign exchange contracts	**27,547**	**17,026**	**4,112,667**	23,346	26,569	4,116,666
	310,446	**62,752**	**10,025,037**	355,308	40,761	8,697,390

Positive fair value is included in other assets (Note 16) and negative fair value is included in other liabilities (Note 18).

The Group's strategy is not to carry interest rate risk for long duration assets. The Group uses interest rate swaps to hedge its exposure to changes in the fair values due to interest rate risk on certain investments in fixed rate debt securities, fixed-rate corporate loans and fixed-rate liabilities issued. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria. In fair value hedge relationships, the Group assesses whether the interest rate swaps designated in each hedging relationship is expected to be highly effective in offsetting changes in fair value of the hedged item attributable to interest rate risk using appropriate qualitative and quantitative methods. The Group generally seeks to fully match the critical terms (tenor, notionals, interest rate exposure, currency, interest payments frequency and payment periods) of the hedged item and hedging instrument.

The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

27 RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members and Executive Officers		**Number of related parties**			
	2023	2022	**2023**	2022	**2023 KD 000's**	2022 KD 000's
Board Members and Executive Officers						
Loans	**6**	6	**22**	18	**49,652**	54,038
Contingent liabilities	**1**	2	**7**	9	**22,719**	20,476
Credit cards	**19**	18	**28**	31	**187**	178
Deposits	**24**	24	**88**	80	**36,927**	52,351
Collateral against credit facilities	**3**	2	**14**	13	**153,137**	174,926
Interest and fee income					**3,005**	1,817
Interest expense					**1,205**	432
Purchase of equipment and other expenses					**330**	367

Details of compensation to key management personnel are as follows:

	2023 KD 000's	2022 KD 000's
Salaries and other short term benefits	**14,095**	12,199
Post-employment benefits	**341**	314
Share based compensation	**656**	1,050
	15,092	13,563

Remuneration to directors of the Bank amounting to KD 770 thousand for the year ended 31 December 2023 (31 December 2022: KD 770 thousand) is in accordance with local regulations and is subject to approval of shareholders at the Annual General Meeting.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

28 RISK MANAGEMENT

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a global risk policy which embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors with the support of the Board Risk and Compliance Committee and the Board Audit Committee. The Group's Risk Management and Internal Audit functions assist Executive Management in controlling and actively managing the Group's overall risk profile.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action.

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk.

28.1 CREDIT RISK

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All significant policies relating to credit risks are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

28 RISK MANAGEMENT (continued)
28.1 CREDIT RISK (continued)

28.1. 1 ASSESSMENT OF EXPECTED CREDIT LOSSES

Definition of default
The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- borrower is considered as credit-impaired based on qualitative assessment for internal credit risk Management purposes
- retail facilities from commencement of legal recourse

The Group considers investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Group considers externally-rated portfolio with ratings 'D' from S&P and Fitch, and 'C' from Moody's as defaulted.

The Group considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

The Group considers a financial asset to be no longer in default and therefore reclassified out of stage 3, when it no longer meets any of the default criteria. Transfer from Stage 3 to Stage 2/Stage 1 requires a notification to be sent to the Regulator with the proper justification.

Significant increase in credit risk
The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess as whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. Financial assets that are 30 days past due are generally deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk unless this is rebutted.

Any stressed credit facility that has been restructured would also be classified in stage 2 unless it qualifies for stage 3 classification. The Group considers a financial asset as 'cured' (i.e., in a lowered distressed state) and therefore reclassified out of stage 2 when it no longer meets the criteria for inclusion in Stage 2. According to the regulatory requirements, for facilities (except for retail facilities) classified under Stage 2, these would require completing a minimum of 1 year, post recovery, of meeting the scheduled payments, to be classified in Stage 1. Transfer from Stage 2 to Stage 1 requires a notification to be sent to the Regulator with the proper justification.

The Group considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk. In addition to the above quantitative criteria, the Group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

Measurement of ECLs
ECLs are probability-weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

28 RISK MANAGEMENT (continued)
28.1 CREDIT RISK (continued)
28.1. 1 ASSESSMENT OF EXPECTED CREDIT LOSSES (continued)

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of the value of eligible collaterals after applying applicable haircuts.

The Group in estimating ECL for credit facilities has taken into consideration the following key parameters based on inputs from CBK:

- Floor for estimating PDs for specific portfolios
- Eligible collateral with haircuts for determining LGD and floor for LGD for unsecured facilities.
- Deemed maturity for exposures in Stage 2
- Credit Conversion Factor on utilized and un-utilized portions for cash and non-cash facilities

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry-standard rating tools for assessing ratings/scores that are then leveraged for PD estimation process. The tool provides the ability to analyse a business and produces risk ratings at both the obligor and facility levels. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally-rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The through-the-cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Group converts the TTC PDs to point-in-time (PIT) PD term structures using appropriate models and techniques.

The Group assesses the PD for its retail portfolio through behavioural scorecards. The Consumer portfolio is further segmented statistically and risk pools with shared risk characteristics are addressed with different scorecards relevant for each of the risk pool. The segmentation is based on demographic, behavioural and financial variables which distinctly rank order risk. The scorecards were developed using statistical techniques. Executing the scorecard will return an associated PD value for each of the facility. The term structure PDs are then derived using a base PD.

Exposure at default

Exposure at default (EAD) represents the amount which the obligor will owe to the Group at the time of default. The Group considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, credit conversion factors, etc. EAD for retail loans incorporate prepayment assumptions whereas, for credit cards portfolio, credit conversion factors are applied to estimate the future drawdowns.

28 RISK MANAGEMENT (continued)
28.1 CREDIT RISK (continued)
28.1. 1 ASSESSMENT OF EXPECTED CREDIT LOSSES (continued)

Loss given default

Loss-given-default (LGD) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

Incorporation of forward-looking information

The Group considers various key economic variables which reflect the continuing uncertainties and effect stemming from Covid-19 and other emerging risks, which may be expected to have an impact on credit risk and the ECL, when incorporating forward-looking information into the ECL models. Key economic variables include, but are not limited to, Gross Domestic Product, Equity price index, Oil prices, and Government expenditure. Together, they provide reasonable indications and forecasts of future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models which incorporate the effect of macro-economic factors to adjust the historical TTC PDs to arrive at the PiT PDs. The Group considers three scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographies and segments, and appropriate probability weights are applied to these scenarios to derive a probability-weighted outcome of expected credit loss. Management reviews the methodologies and assumptions including any forecasts of future economic conditions, on a regular basis.

The weighting of the multiple scenarios increased the Group's reported allowance for expected credit losses on financial assets, other than credit facilities, in Stage 1 and Stage 2, relative to the base case scenario, by KD 3,503 thousand (2022: increased by KD 2,689 thousand). If the Group were to use only downside case scenario, allowance for expected credit losses on financial assets other than credit facilities would be KD 13,176 thousand (2022: KD 7,583 thousand) higher than the reported allowance for expected credit losses on financial assets, other than credit facilities, as at 31 December 2023.

The weighting of the multiple scenarios increased the Group's reported allowance for expected credit losses on credit facilities, in Stage 1 and Stage 2, relative to the base case scenario, by KD 11,927 thousand (2022: increased by KD 11,917 thousand). If the Group were to use only downside case scenario, allowance for expected credit losses on credit facilities would be KD 54,644 thousand (2022: KD 32,003 thousand) higher than the reported allowance for expected credit losses on credit facilities as at 31 December 2023.

Actual outcomes may differ as this neither considers the migration of exposures nor incorporates changes which would occur in the portfolio due to risk mitigation actions and other factors.

Notes to the Consolidated Financial Statements (continued)

31 December 2023

28 RISK MANAGEMENT (continued)
28.1 CREDIT RISK (continued)

28.1. 2 MAXIMUM EXPOSURE TO CREDIT RISK

An analysis of loans, advances and Islamic facilities to customers and contingent liabilities before and after taking account of eligible collateral held or other credit enhancements, is as follows:

	2023		2022	
	Gross exposure KD 000's	Net exposure KD 000's	Gross exposure KD 000's	Net exposure KD 000's
Loans, advances and Islamic financing to customers	22,281,004	15,841,839	20,998,416	14,845,174
Contingent liabilities	4,615,911	4,430,493	4,467,386	4,291,810

For other financials assets, the gross exposure amounts are equal to net exposure amounts.

Collateral and other credit enhancements
The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

28.1. 3 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2023 is 14% (2022: 15%).

28 RISK MANAGEMENT (continued)
28.1 CREDIT RISK (continued)
28.1. 3 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

2023 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe & UK KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	3,300,992	1,255,953	700,504	279,435	-	5,536,884
Central Bank of Kuwait bonds	856,815	-	-	-	-	856,815
Kuwait Government treasury Bonds	194,111	-	-	-	-	194,111
Loans, advances and Islamic financing to customers	18,706,076	579,586	1,911,118	652,231	431,993	22,281,004
Investment securities	4,783,897	51,918	420,703	1,304,861	30,504	6,591,883
Other assets	305,897	35,361	294,212	8,678	2,134	646,282
	28,147,788	1,922,818	3,326,537	2,245,205	464,631	36,106,979
Commitments and contingent liabilities (Note 25)	3,391,864	320,596	1,181,022	1,008,663	41,274	5,943,419
	31,539,652	2,243,414	4,507,559	3,253,868	505,905	42,050,398

2022 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe & UK KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	3,050,068	2,704,510	676,096	169,466	-	6,600,140
Central Bank of Kuwait bonds	881,241	-	-	-	-	881,241
Kuwait Government treasury Bonds	211,629	-	-	-	-	211,629
Loans, advances and Islamic financing to customers	17,971,676	583,386	1,618,143	450,892	374,319	20,998,416
Investment securities	3,953,530	24,610	187,967	1,119,462	30,445	5,316,014
Other assets	399,866	19,933	315,336	7,539	1,951	744,625
	26,468,010	3,332,439	2,797,542	1,747,359	406,715	34,752,065
Commitments and contingent liabilities (Note 25)	3,037,221	280,380	1,173,523	996,393	4,159	5,491,676
	29,505,231	3,612,819	3,971,065	2,743,752	410,874	40,243,741

Notes to the Consolidated Financial Statements (continued)

31 December 2023

28 RISK MANAGEMENT (continued)
28.1 CREDIT RISK (continued)
28.1. 3 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2023 KD 000's	2022 KD 000's
Industry sector		
Trading	2,206,795	2,136,617
Manufacturing	3,369,644	3,290,431
Banks and other financial institutions	12,929,028	12,810,369
Construction	1,658,949	1,594,674
Real Estate	4,596,994	4,229,800
Retail	7,435,574	7,382,170
Government	3,658,123	3,497,046
Others	6,195,291	5,302,634
	42,050,398	40,243,741

28.1. 4 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the default risk from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The default risk on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

28 RISK MANAGEMENT (continued)
28.1 CREDIT RISK (continued)
28.1. 4 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

The table below shows the credit quality by class of financial assets for statement of financial position lines, based on the Group's credit rating system.

2023	High KD 000's	Standard KD 000's	Impaired KD 000's	Total KD 000's
Balances and short term deposits with banks	4,220,354	-	26,788	4,247,142
Central Bank of Kuwait bonds	856,815	-	-	856,815
Kuwait Government treasury bonds	194,111	-	-	194,111
Deposits with banks	1,028,972	289,946	307	1,319,225
Loans, advances and Islamic financing to customers	20,020,437	2,805,031	318,386	23,143,854
Investments in debt securities – Amortized cost	171,468	901,718	-	1,073,186
Investments in debt securities – FVOCI	4,996,478	522,695	471	5,519,644
Investments in debt securities – FVPL	17,979	-	-	17,979
	31,506,614	4,519,390	345,952	36,371,956

2022	High KD 000's	Standard KD 000's	Impaired KD 000's	Total KD 000's
Balances and short term deposits with banks	5,109,486	-	29,524	5,139,010
Central Bank of Kuwait bonds	881,241	-	-	881,241
Kuwait Government treasury bonds	211,629	-	-	211,629
Deposits with banks	1,250,912	238,262	3,942	1,493,116
Loans, advances and Islamic financing to customers	19,049,904	2,466,407	310,046	21,826,357
Investments in debt securities – Amortized cost	13,860	915,310	-	929,170
Investments in debt securities – FVOCI	3,756,672	628,586	477	4,385,735
Investments in debt securities – FVPL	17,671	-	-	17,671
	30,291,375	4,248,565	343,989	34,883,929

Notes to the Consolidated Financial Statements (continued)

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28 RISK MANAGEMENT (continued)

28.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2023	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Assets				
Cash and deposits with banks	5,520,612	182,209	-	5,702,821
Central Bank of Kuwait bonds	472,911	383,904	-	856,815
Kuwait Government treasury bonds	-	47,000	147,111	194,111
Loans, advances and Islamic financing to customers	6,271,945	2,794,350	13,214,709	22,281,004
Investment securities	779,059	539,776	5,565,986	6,884,821
Land, premises and equipment	-	-	506,812	506,812
Goodwill and other intangible assets	-	-	508,416	508,416
Other assets	313,603	53,340	363,248	730,191
	13,358,130	4,000,579	20,306,282	37,664,991
Liabilities and equity				
Due to banks	3,223,281	728,464	12,057	3,963,802
Deposits from other financial institutions	2,543,653	1,167,902	14,074	3,725,629
Customer deposits	15,776,574	5,493,783	678,600	21,948,957
Certificates of deposit issued	637,710	185,189	-	822,899
Other borrowed funds	-	153,690	1,177,316	1,331,006
Other liabilities	783,894	18,927	163,302	966,123
Share capital and reserves	-	-	3,685,523	3,685,523
Proposed cash dividend	-	198,249	-	198,249
Perpetual Tier 1 Capital Securities	-	-	439,032	439,032
Non-controlling interests	-	-	583,771	583,771
	22,965,112	7,946,204	6,753,675	37,664,991

28 RISK MANAGEMENT (continued)
28.2 LIQUIDITY RISK (continued)

2022	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Assets				
Cash and deposits with banks	6,613,969	197,600	2,169	6,813,738
Central Bank of Kuwait bonds	494,770	386,471	-	881,241
Kuwait Government treasury bonds	15,000	5,000	191,629	211,629
Loans, advances and Islamic financing to Customers	6,173,559	2,248,920	12,575,937	20,998,416
Investment securities	624,743	518,416	4,491,513	5,634,672
Land, premises and equipment	-	-	474,724	474,724
Goodwill and other intangible assets	-	-	534,936	534,936
Other assets	367,267	47,811	373,929	789,007
	14,289,308	3,404,218	18,644,837	36,338,363
Liabilities and equity				
Due to banks	3,586,607	419,823	11,549	4,017,979
Deposits from other financial institutions	2,245,402	1,300,885	194,590	3,740,877
Customer deposits	14,717,473	4,656,934	803,655	20,178,062
Certificates of deposit issued	1,426,253	375,370	-	1,801,623
Other borrowed funds	39,819	76,575	1,127,169	1,243,563
Other liabilities	585,794	8,840	126,679	721,313
Share capital and reserves	-	-	3,434,180	3,434,180
Proposed cash dividend	188,808	-	-	188,808
Perpetual Tier 1 Capital Securities	-	-	439,032	439,032
Non-controlling interests	-	-	572,926	572,926
	22,790,156	6,838,427	6,709,780	36,338,363

Notes to the Consolidated Financial Statements (continued)

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28 RISK MANAGEMENT (continued)
28.2 LIQUIDITY RISK (continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

2023	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Financial Liabilities				
Due to banks	3,230,779	752,183	13,212	3,996,174
Deposits from other financial institutions	2,554,144	1,198,201	15,658	3,768,003
Customer deposits	15,831,255	5,658,392	763,543	22,253,190
Certificates of deposit issued	642,697	190,310	-	833,007
Other borrowed funds	8,540	195,681	1,291,674	1,495,895
	22,267,415	7,994,767	2,084,087	32,346,269
Contingent liabilities and commitments				
Contingent liabilities	1,364,374	1,885,643	1,365,894	4,615,911
Irrevocable commitments	274,707	313,361	739,440	1,327,508
	1,639,081	2,199,004	2,105,334	5,943,419
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	3,051,777	1,056,390	309,391	4,417,558
Contractual amounts receivable	3,046,421	1,053,861	299,513	4,399,795

2022	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Financial Liabilities				
Due to banks	3,597,177	432,031	12,526	4,041,734
Deposits from other financial institutions	2,251,298	1,321,018	207,792	3,780,108
Customer deposits	14,761,211	4,771,459	882,025	20,414,695
Certificates of deposit issued	1,432,841	384,877	-	1,817,718
Other borrowed funds	49,381	108,373	1,263,374	1,421,128
	22,091,908	7,017,758	2,365,717	31,475,383
Contingent liabilities and commitments				
Contingent liabilities	1,280,110	1,685,461	1,501,815	4,467,386
Irrevocable commitments	90,996	280,629	652,665	1,024,290
	1,371,106	1,966,090	2,154,480	5,491,676
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	2,302,538	1,626,029	349,018	4,277,585
Contractual amounts receivable	2,304,139	1,625,124	348,507	4,277,770

28 RISK MANAGEMENT (continued)

28.3 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

28.3.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and most exposures arising on medium-term fixed-rate lending or fixed-rate borrowing are covered by interest rate swaps. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board of Directors and adjusted where necessary, to reflect the changing market conditions.

Interest rate sensitivity
Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest-bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity on equity is the impact arising from changes in interest rate on fair value of investments in debt securities classified as FVOCI. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

		2023		2022	
		Effect on profit KD 000's	**Effect on equity KD 000's**	Effect on profit KD 000's	Effect on equity KD 000's
Currency	**Movement in Basis points**				
KWD	+25	8,525	-	9,138	-
USD	+25	5,548	-	5,579	-
EUR	+25	305	-	463	-
GBP	+25	788	-	621	-
EGP	+25	366	(180)	169	(402)

Notes to the Consolidated Financial Statements (continued)

31 December 2023

28 RISK MANAGEMENT (continued)
28.3 MARKET RISK (continued)

28.3.2 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. In general assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The table below analyses the effect on profit of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year-end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase.

		2023	2022
		Effect on profit KD 000's	Effect on profit KD 000's
Currency	**% Change in currency rate**		
USD	+5	(393)	(248)
GBP	+5	(1)	99
EUR	+5	38	57
Other	+5	108	(74)

28.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through profit or loss) and on equity (as a result of change in the fair value of equity investments classified as FVOCI) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2023		2022	
Market indices	**% Change in equity price**	**Effect on profit KD 000's**	**Effect on equity KD 000's**	Effect on profit KD 000's	Effect on equity KD 000's
Kuwait stock exchange	+5	82	32	121	28
Qatar stock exchange	+5	177	-	97	-
UAE stock indices	+5	366	-	342	-
Saudi stock exchange	+5	999	220	883	81

28 RISK MANAGEMENT (continued)

28.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

29 CAPITAL

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/ BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are, also, governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2023 KD 000's	2022 KD 000's
Risk-Weighted Assets	26,469,664	24,571,451
Total Capital required	3,970,540	3,317,146
Total Capital available		
Common Equity Tier 1 Capital	3,442,577	3,170,120
Additional Tier 1 Capital	531,776	527,411
Tier 1 Capital	3,974,353	3,697,531
Tier 2 Capital	597,889	573,564
Total Capital	4,572,242	4,271,095
Common Equity Tier 1 Capital adequacy ratio	13.0%	12.9%
Tier 1 Capital adequacy ratio	15.0%	15.0%
Total Capital adequacy ratio	17.3%	17.4%

Notes to the Consolidated Financial Statements (continued)

31 December 2023

29 CAPITAL (continued)

Total capital requirement as at 31 December 2023 is 15% (31 December 2022:13.5%) including capital conservation buffer of 2.5% (31 December 2022 :1%). The relief on capital conservation buffer allowed by CBK in response to Covid-19 is not available effective from 1 January 2023.

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2023 KD 000's	2022 KD 000's
Tier 1 capital	**3,974,353**	3,697,531
Total exposures	**40,989,808**	39,373,804
Leverage ratio	**9.7%**	9.4%

30 FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2023, funds under management were KD 6,600 million (2022: KD 5,682 million).

31 CHANGES IN REFERENCE RATES (IBOR)

The Group's exposure to its floating-rate financial assets and liabilities denominated in foreign currencies, is mainly through USD LIBOR. As at 31 December 2023, the Group has transitioned a significant majority of its contracts to "Risk-Free Rates" (RFRs). For the remaining contracts which are mainly syndicated contracts, discussions are currently in progress with the counterparties/customers to complete transition before the next repricing date. For a limited number of contracts whose transition is not expected to be completed by next repricing date, the Group will continue with the 'synthetic' Libor benchmark published by the ICE Benchmark Administration until 30 September 2024.

Derivatives held for hedging purposes

The Group has completed the transition of all USD and non-USD linked derivatives as per ISDA Fallbacks protocol.

NATIONAL BANK OF KUWAIT GROUP

CONSOLIDATED FINANCIAL STATEMENTS

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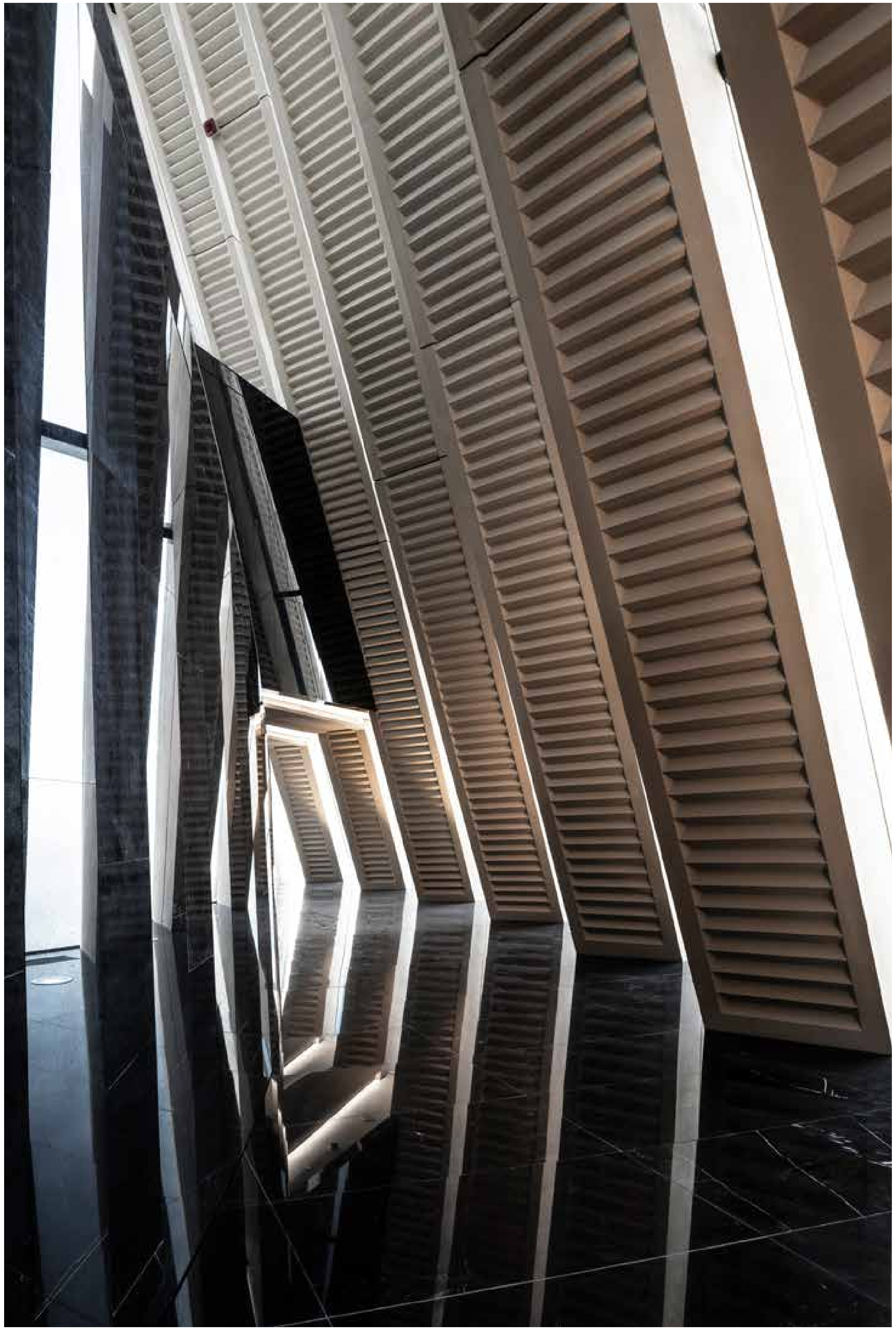

Group Directory

HEAD OFFICE

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13001 Kuwait
Tel: +965 2229 1111
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CONSUMER BANKING GROUP

Retail Banking
Ext: 2053

Domestic Branches
Ext: 3250

Direct Sales
Ext: 5003

Consumer Lending
Ext: 3374

Marketing
Ext: 3507

Consumer Credit Collection
Ext: 2305

Private Banking Group
Ext: 2553

Domestic Corporate Banking
Ext: 2373

Foreign Corporate, Oil and Trade Finance Group
Ext: 2307

Treasury Group
Ext: 3567

Group Risk Management
Ext: 2321

Economic Research Group
Ext: 3136

Legal Affairs Group
Ext: 3091

Human Resources
Ext: 5162

International Banking Group

Regional Institutional Banking
Ext: 5328

Please refer to international network for a complete listing

Operations Group
Ext: 3354

Information Technology Group
Ext: 3797

Group Financial Control
Ext: 3009

Executive Office
Ext: 2230

Public Relations
Ext: 3166

Media Relations
Ext: 2789

Advertising
Ext: 2665

Group Internal Audit
Ext: 5405

Local Branches

Ahmad Al-Jaber
Ahmadi
Airport T1
Airport T4
AIU - Self-service Branch
Al-Rihab
Al-Rumaithiya
Ali Sabah Al-Salem
Andalus
Ardiya
Avenues
Bayan
Boursa
Cinema Salmiya
Dahiyat A. Salem
Daiya
Dasma
Doha
Edge Mall
Eqaila
Fahad Al-Salem
Fahaheel
Fahaheel Sahely
Faiha
Farwaniya
Fintas
Ghazali
Grand Avenues Plaza
Hadiya
Hamra Tower
Hawally
HQ
Jabriya
Jahra
Jahra Commercial
Jleeb Shuyoukh
Kuwait Airways Head Office - Self-service Branch
Kaifa
Khairan Hybrid Outlet Mall
Khairan Square - Self-service Branch
Kheitan
KNPC
KOC
Ministries Complex
Mishref
MTC Headquarters
Mubarak Al Kabeer
Nuzha
PIFSS
Qadsiya
Qortouba
Qurain
Ras Al-Salmiya
Rawda
Riqqa
Saad Al-Abdullah
Sabah Al-Nasser
Sabah Al Salem
Sabahiya
Sabhan
Salmiya Salam Mall
Salwa
Shamiya
Sharq
Shuwaikh
Shuwaikh Medical
Siddiq
Sour
South Surra
Surra
The Warehouse
Yarmouk

Head Office Tel.: 2229 1111
Call Center Tel.: 1801801

For More Information About National Bank of Kuwait:

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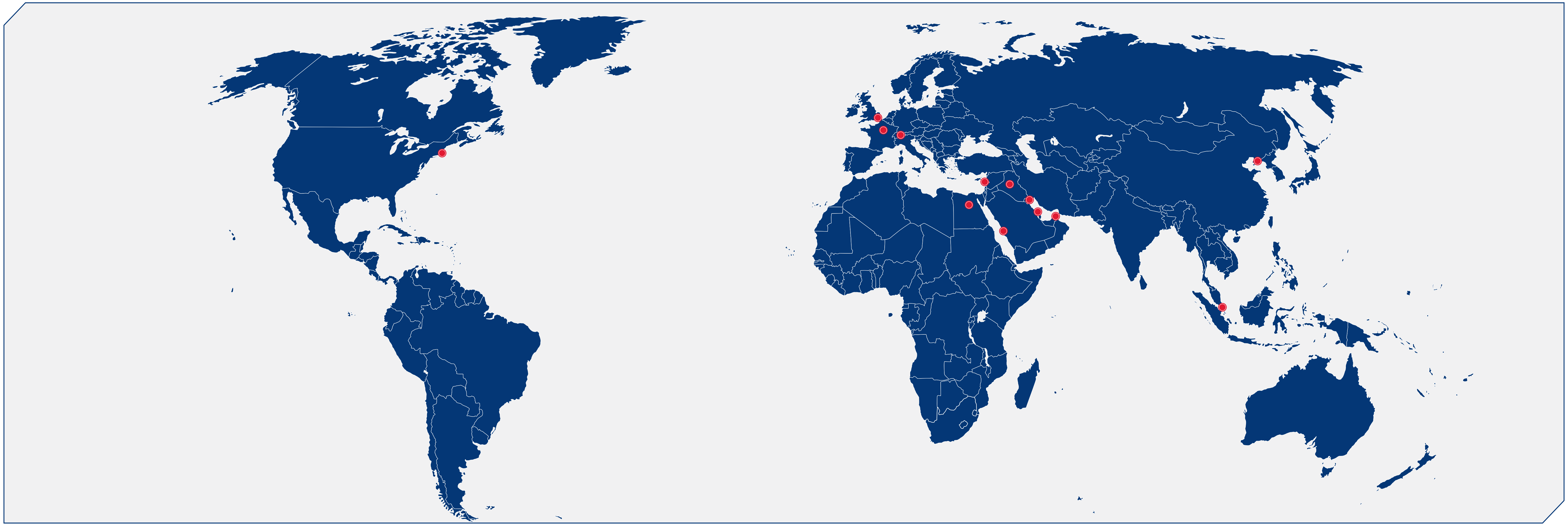
1801801

International Branches



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